

October 22, 2022

Q2FY23 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		HOLD	
Target Price	2,250		2,300	
NII (Rs.)	9,848	11,986	10,710	12,782
% Chng.	(8.0)	(6.2)		
PPoP (Rs.)	6,610	7,879	7,107	8,293
% Chng.	(7.0)	(5.0)		
EPS (Rs.)	61.0	72.7	66.2	77.1
% Chng.	(7.7)	(5.7)		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	6,513	8,321	9,848	11,986
Growth (%)	25.7	27.8	18.3	21.7
Op. Profit (Rs m)	4,775	5,713	6,610	7,879
PAT (Rs m)	3,568	4,260	4,819	5,739
EPS (Rs.)	45.2	54.0	61.0	72.7
Gr. (%)	22.6	19.4	13.1	19.1
DPS (Rs.)	7.5	2.7	3.7	4.4
Yield (%)	0.4	0.1	0.2	0.2
Margin (%)	6.8	7.1	6.9	7.0
RoAE (%)	13.7	14.0	13.8	14.4
RoAA (%)	3.6	3.5	3.3	3.2
PE (x)	44.0	36.9	32.6	27.4
P/BV (x)	5.6	4.8	4.2	3.7
P/ABV (x)	5.7	4.9	4.3	3.8

Key Data

AVAS.BO | AAVAS IN

52-W High / Low	Rs.3,340 / Rs.1,815
Sensex / Nifty	59,307 / 17,576
Market Cap	Rs.157bn/ \$ 1,902m
Shares Outstanding	79m
3M Avg. Daily Value	Rs.210.57m

Shareholding Pattern (%)

Promoter's	39.16
Foreign	37.63
Domestic Institution	11.02
Public & Others	12.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.3)	(17.3)	(28.8)
Relative	(8.1)	(19.2)	(26.9)

Gaurav Jani

gauravjani@plindia.com | 91-22-66322235

Palak Shah

palakshah@plindia.com | 91-22-66322257

AAVAS Financiers (AAVAS IN)

Rating: ACCUMULATE | CMP: Rs1,990 | TP: Rs2,250

Good quarter; opex to remain elevated

Quick Pointers:

- Higher NII and off-book income with and lower provisions led to PAT beat.
- Growth may be sustainable although opex to remain stretched in near term.

Aavas saw a good quarter with earnings beat led by higher off-book income and better NII (a function of higher NIM and AuM growth). Asset quality was stable with lower provisions. Balanced asset-liability profile and immediate reset of floating rate assets vis-à-vis liabilities ensured that NIM was stable QoQ. AuM grew by 23.6% YoY (PLe 22.6%) and guidance is to consistently grow between 22-25% as demand exists, however asset quality would be preferred over growth. Opex intensity could keep costs elevated for 6-9 months owing to ramp up in distribution network and tech spends, however cost/income may start tapering off from FY24. While we raise AuM growth for FY24 by ~2%, we cut PAT by 8% due higher opex. Hence we trim multiple from 5.0x to 4.6x but roll forward to Sep'24 ABV to arrive at a TP of Rs2,250 (earlier Rs2300). Change rating from HOLD to ACCUMULATE.

- Earnings beat led by lower provisioning:** NII was a slight beat at Rs1.88bn (PLe Rs1.82bn) led by better margins and tad higher AuM growth. NIM was 6.76% (PLe 6.59%) led by higher yields and lower funding cost. AuM grew by 23.6% YoY (PLe 22.6% YoY) as disbursements were more while repayments were lower. Other income was largely in-line at Rs1.7bn while off-book income was higher at Rs494mn (PLe Rs200mn). Opex was a miss at Rs1.15bn due to higher staff cost. Better NII/off-book income led to PPOP beat at Rs1.4bn (PLe Rs1.1). Gross/net stage-3 was stable QoQ at 1.1%/0.8%. Provisions were lower at Rs16mn (PLe Rs50mn). PAT was a beat at Rs1.1bn (PLe Rs0.84bn).
- Business momentum sustaining:** Sequential AuM growth was strong at 5.5% QoQ that was led by non-HL segment which grew by 6.2% QoQ, while home loans grew by 5.2% QoQ. HL: Non-HL AuM mix stood at 70:30 vs 73:27 in Q1FY22. Management suggested that it can sustainably grow by 20-25% per annum driven by technology, lower BT-outs and deeper penetration within different geographies. However, focus would remain on quality underwriting as asset quality would always take a precedence over growth. Repayments were steady sequentially. BT-out has reduced to 0.5% per month and would be 6% annualized. Company has 57% of book in floating rate which gets repriced immediately, while nearly 25% of the fixed book gets repriced every year, providing cushion to NIM, which would explain a stable NIM QoQ.
- Opex to remain elevated; asset quality steady:** Opex remained elevated in Q2FY23 mainly on account of ramp-up in distribution network (guidance to add 35-40 branches has been maintained), people and investments in digitization & technology. Cost/income was 45% vs 41.2% in Q4FY22. Major technology investments are expected to be completed in 6-9months, post which benefits would accrue and C/I is expected to come off from FY24. Credit quality in terms of stage-3 was steady QoQ. Slippages were a tad higher as repossessed assets are now classified as GS-3 which led to increase of Rs0.12bn in GS-3; adjusted for same slippages were 0.9%. Focus remains on better collections.

Exhibit 1: Lower NII and higher opex lead to PPOP miss

NII growth was decent at 21% YoY led by AUM growth as margins were steady.

Other income was stable sequentially.

Opex has been relatively elevated due to higher business volumes and expansion.

Lower provision than expected.

Disbursements have been decent

NIMs remain steady as yield & cost go up in tandem

Asset Quality stable

Financial Statement (Rs mn)	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)
Interest Income	3,781	3,118	21.2	3,365	12.3
Interest Expense	1,410	1,160	21.6	1,347	4.7
Net interest income (NII)	2,370	1,958	21.1	2,019	17.4
Other income	170	137	24.7	163	4.2
Total income	2,541	2,095	21.3	2,182	16.4
Operating expenses	1,147	864	32.7	1,026	11.7
Operating profit	1,394	1,231	13.3	1,156	20.6
Total provisions	16	47	(66.0)	9	76.0
Profit before tax	1,378	1,183	16.5	1,147	20.2
Tax	310	262	18.2	254	21.7
Profit after tax	1,068	921	16.0	892	19.7
AUM (Rs mn)	125,437	101,481	23.6	118,936	5.5
Disbursements (Rs mn)	11,467	9,016	27.2	10,936	4.9
Profitability ratios					
NIM	7.7	7.8	(13)	7.7	-
RoAA	3.2	3.3	(8)	3.2	-
RoAE	12.5	12.3	24	12.5	-
Asset Quality ratios					
Gross NPL (Rs m)	1,254	795	57.8	1,130	20.1
Net NPL (Rs m)	941	589	59.9	847	16.9
Gross NPL ratio	1.1	1.0	14	1.1	2
Net NPL ratio	0.8	0.7	12	0.8	-
Coverage ratio	25.0	26.0	(98)	25.0	205
Business & Other Ratios					
Yield on Loans (%)	12.9	12.9	(5)	12.7	18
Cost of Borrowings (%)	7.0	7.2	(18)	6.9	13
Spread (%)	5.9	5.7	13	5.8	5
Cost/Income Ratio	45.1	41.2	388	47.0	(190)

Source: Company, PL

Q2FY23 Concall Highlights

Assets/Liabilities

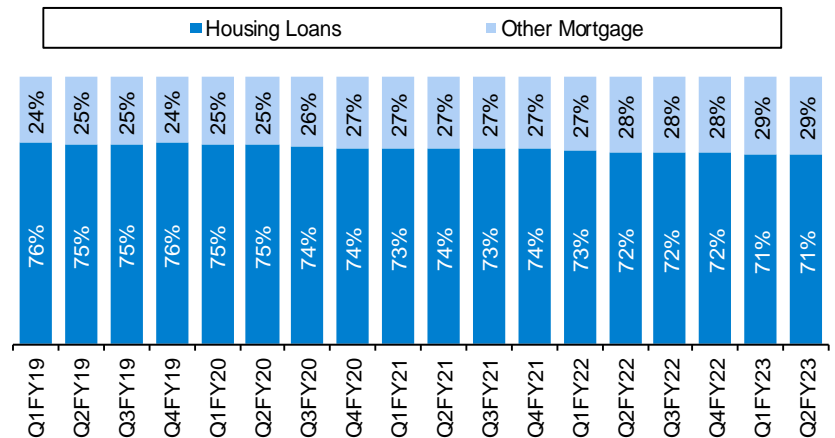
- Management expects the affordable housing segment to grow sustainably, this in addition to the technology and geography awareness would continue to benefit the company.
- Disbursements in the quarter were Rs.11.5bn leading to an AUM growth of 23.6% YoY/5.5% QoQ. Management guided for 23-25% YoY growth while maintaining asset quality and sustainable operating metrics.
- Repayment rate remained steady sequentially at 22.9%(annualized) of the opening AUM. BT-out has reduced from 0.6% pm to 0.5% pm and would be 6% (annualised).
- Rate hikes are passed on to the customers as per the decision of ALCO, nearly 25% of Fixed Rate loans reset every year, reset is permitted every 3 years, hence risk is minimized to that extent. Company has announced rate hikes by 50bps from 5th Oct, 2022. 55% loans get repriced immediately.

Fees/NIMs/Branches

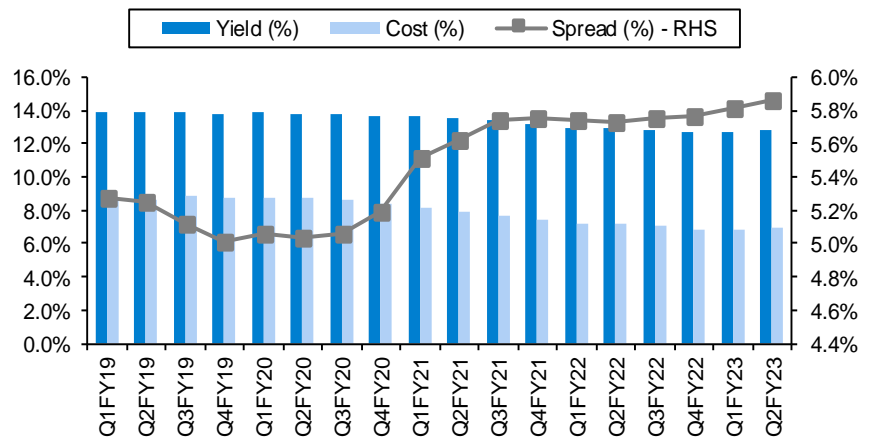
- NIM came to 7.7% flat as previous quarter. Average cost of borrowing was 6.99% and spread was maintained at 5.86%. Yield hike has not been much as there has been competitive lending to avoid BT-out.
- Yields on Home loans were 11.7%-12% while non-home loans were 14%-14.2%. Fixed rate lending is usually 200-300bps higher than variable rates.
- Opex was elevated during the year mainly on account of ramp up in distribution network, investments in digitization and technology. Tech revamping is expected to be completed in 6-9 months, hence from next year onwards opex is expected to come down.
- Every 35 branches are opened. So far 7-8 branches have been opened, expect pace to improve in H2FY23.
- Attrition – Usually tele calling, admin & sales employees hired on contractual basis which has led to higher attrition.

Asset Quality

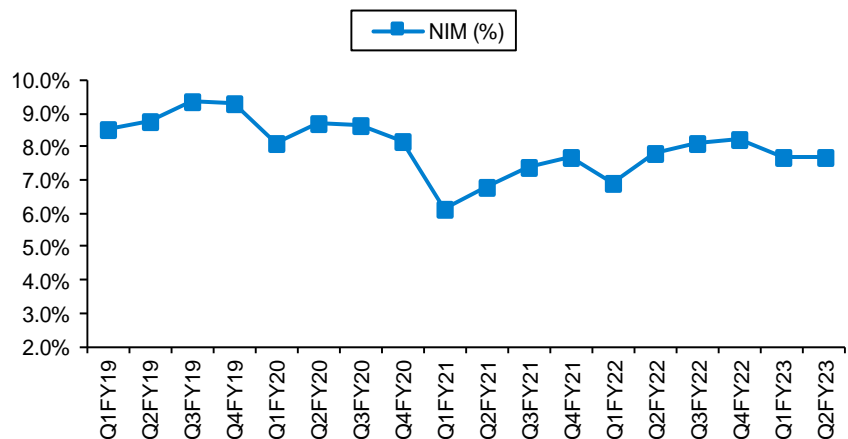
- **Slippages** - Repossessed assets now classified as GS3, led to increase of Rs.0.12bn in GS3. Otherwise, slippages are 0.9%. Rate hike won't impact delinquencies.
- Management guided that 1+ DPD book would <5%, while 90+ DPD would be maintained in ~1% range

Exhibit 2: Loan Book mix sees slight uptick in other mortgage


Source: Company, PL Research

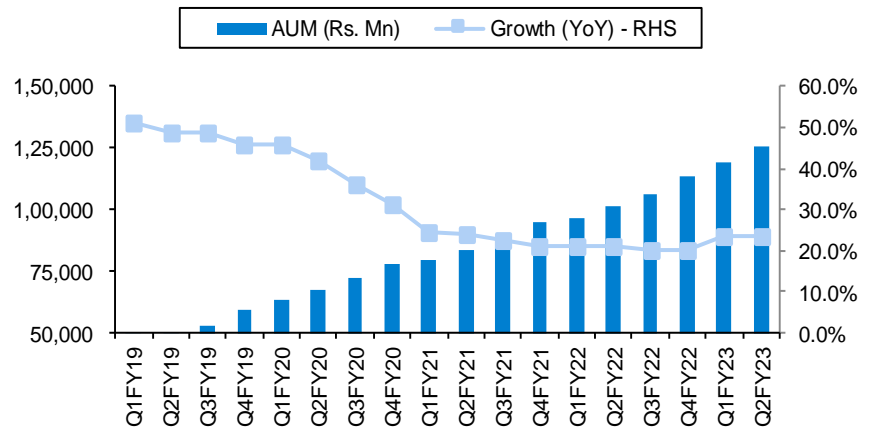
Exhibit 3: Spreads maintained at 5.8% levels


Source: Company, PL Research

Exhibit 4: NIM steady sequentially


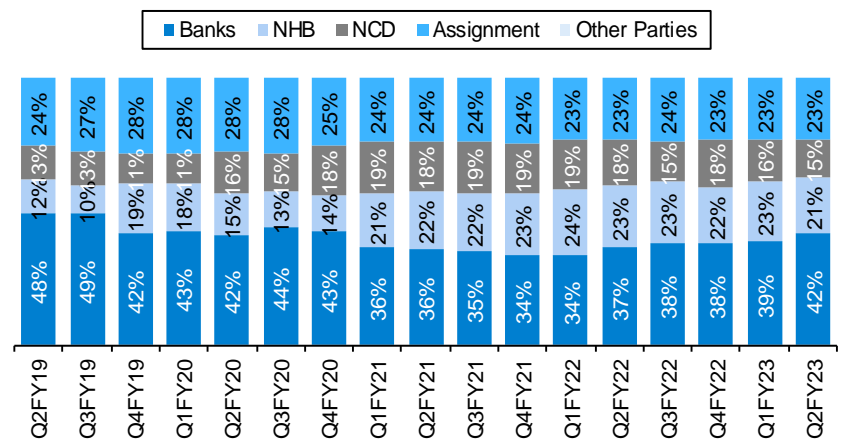
Source: Company, PL

Exhibit 5: AUM growth was decent on lower base



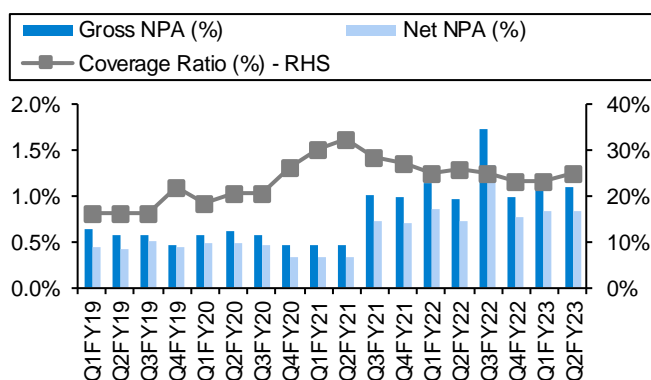
Source: Company, PL

Exhibit 6: Borrowing Mix mainly from Banks and NHB refinance



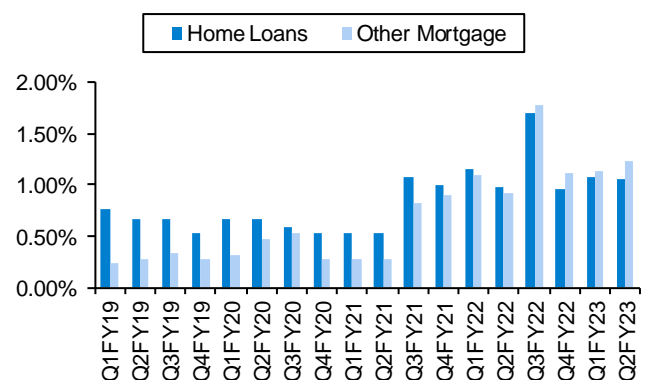
Source: Company, PL Research

Exhibit 7: Asset quality metrics stable



Source: Company, PL

Exhibit 8: Segmental GNPA break-up



Source: Company, PL

Exhibit 9: ROEs to improve on lower provision

RoE decomposition (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest income	10.2	10.3	9.8	9.7	9.4	10.0	10.3	10.7
Interest expenses	5.0	4.4	4.4	4.6	4.0	4.3	4.8	5.1
Net interest income	5.2	5.9	5.4	5.2	5.4	5.7	5.6	5.6
Other Inc. from operations	2.6	2.0	1.5	1.3	1.5	1.4	1.3	1.3
Total income	7.8	7.9	6.8	6.4	6.9	7.1	6.9	7.0
Employee expenses	2.9	2.0	1.8	1.7	1.9	2.1	2.1	2.1
Other operating expenses	1.4	1.2	1.0	0.8	0.9	1.0	1.0	1.1
Operating profit	3.5	4.6	3.9	3.9	4.0	3.9	3.7	3.7
Tax	1.1	1.4	0.7	0.6	0.8	0.9	0.8	0.8
Loan loss provisions	0.1	0.2	0.2	0.4	0.2	0.1	0.2	0.2
RoAA	2.4	3.0	3.1	2.9	3.0	2.9	2.7	2.7
RoAE	11.2	11.9	12.7	12.9	13.7	14.0	13.8	14.4

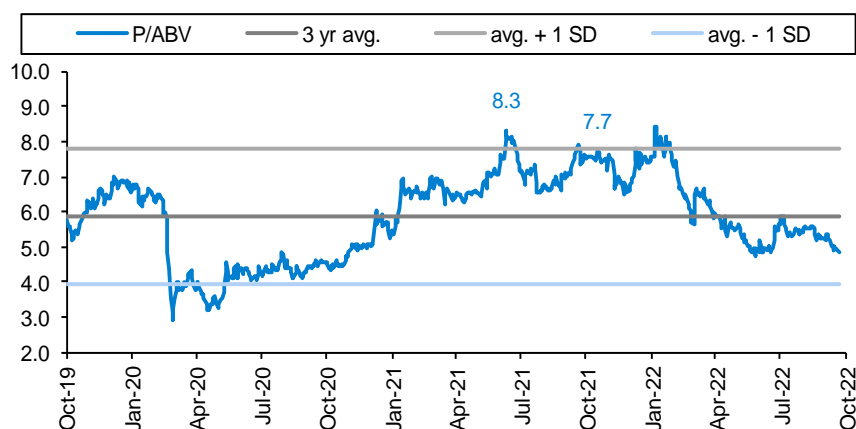
Source: Company, PL

Exhibit 10: We slightly tweak estimates and credit cost assumptions

Estimates Change Table Rs (mn)	Old		Revised		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net interest income	8,971	10,898	8,321	9,848	(7.3)	(8.0)
Operating profit	5,690	7,340	5,713	6,610	0.3	(7.0)
Net profit	4,170	5,402	4,260	4,819	2.1	(7.7)
Loan Growth (%)	20.1	19.6	22.0	21.3	1.9	1.7
Credit Cost (bps)	22.0	21.7	14.4	23.0	(7.6)	1.3
EPS, Rs.	52.8	68.4	54.0	61.0	2.1	(7.7)
ABV per share, Rs.	382.8	446.5	403.0	459.2	5.3	3.3
Price target, Rs.	2,300		2,250		(2.2)	
Recommendation	HOLD		ACCUMULATE			

Source: Company, PL

Exhibit 11: One year forward P/ABV valuation chart



Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Inc. / Opt. Inc.	11,288	14,626	18,358	22,892
Interest Expenses	4,775	6,305	8,510	10,905
Net interest income	6,513	8,321	9,848	11,986
Growth(%)	25.7	27.8	18.3	21.7
Non-interest income	1,768	2,072	2,356	2,826
Growth(%)	37.1	17.2	13.7	19.9
Net operating income	8,281	10,393	12,204	14,812
Expenditures				
Employees	2,322	3,068	3,678	4,573
Other Expenses	946	1,289	1,531	1,887
Depreciation	238	324	385	474
Operating Expenses	3,506	4,680	5,594	6,933
PPP	4,775	5,713	6,610	7,879
Growth(%)	22.3	19.7	15.7	19.2
Provisions	226	181	352	426
Profit Before Tax	4,549	5,532	6,258	7,453
Tax	981	1,272	1,439	1,714
Effective Tax rate(%)	21.6	23.0	23.0	23.0
PAT	3,568	4,260	4,819	5,739
Growth(%)	23.2	19.4	13.1	19.1

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Source of funds				
Equity	789	789	789	789
Reserves and Surplus	27,297	31,914	36,444	41,839
Networth	28,086	32,704	37,233	42,628
Growth (%)	17.0	16.4	13.9	14.5
Loan funds	79,725	98,238	1,20,731	1,46,239
Growth (%)	25.6	23.2	22.9	21.1
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	2,352	2,576	2,951	3,346
Other Liabilities	40	50	62	75
Total Liabilities	1,10,204	1,33,568	1,60,977	1,92,287
Application of funds				
Net fixed assets	683	786	953	1,152
Advances	90,534	1,10,369	1,33,879	1,61,803
Growth (%)	20.3	21.9	21.3	20.9
Investments	675	904	1,064	1,255
Current Assets	15,359	18,065	21,074	23,439
Net current assets	13,007	15,489	18,122	20,094
Other Assets	2,953	3,445	4,007	4,637
Total Assets	1,10,204	1,33,568	1,60,977	1,92,287
Growth (%)	23.0	21.2	20.5	19.5
Business Mix				
AUM	1,13,502	1,38,459	1,67,955	2,02,991
Growth (%)	20.1	22.0	21.3	20.9
On Balance Sheet	1,13,502	1,38,459	1,67,955	2,02,991
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	6.8	7.1	6.9	7.0
ROAA	3.6	3.5	3.3	3.2
ROAE	13.7	14.0	13.8	14.4

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Int. Inc. / Operating Inc.	2,830	3,041	3,148	3,287
Income from securitization	-	-	-	-
Interest Expenses	1,251	1,237	1,347	1,410
Net Interest Income	1,579	1,804	1,802	1,877
Growth (%)	12.1	37.9	19.9	15.3
Non-Interest Income	599	612	380	664
Net Operating Income	2,178	2,416	2,182	2,541
Growth (%)	12.8	37.9	37.1	21.3
Operating expenditure	910	1,059	1,026	1,147
PPP	1,268	1,357	1,156	1,394
Growth (%)	-	-	-	-
Provision	113	(104)	9	16
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	1,155	1,461	1,147	1,378
Tax	264	304	254	310
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	22.9	20.8	22.2	22.5
PAT	891	1,157	892	1,068
Growth	4	32	49	16
AUM	1,06,126	1,13,502	1,18,936	1,25,437
YoY growth (%)	20.3	20.1	23.7	23.6
Borrowing	72,291	79,725	82,909	85,712
YoY growth (%)	11.5	25.6	27.8	24.1

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	1,990	1,990	1,990	1,990
EPS (Rs)	45.2	54.0	61.0	72.7
Book value (Rs)	355.8	414.3	471.7	540.0
Adj. BV(Rs)	347.0	403.0	459.2	526.0
P/E(x)	44.0	36.9	32.6	27.4
P/BV(x)	5.6	4.8	4.2	3.7
P/ABV(x)	5.7	4.9	4.3	3.8
DPS (Rs)	7.5	2.7	3.7	4.4
Dividend Payout Ratio(%)	16.6	5.0	6.0	6.0
Dividend Yield(%)	0.4	0.1	0.2	0.2

Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs(Rs m)	904	1,208	1,334	1,525
Net NPA(Rs m)	695	894	985	1,111
Gross NPAs to Gross Adv.(%)	1.0	1.1	1.0	0.9
Net NPAs to net Adv.(%)	0.8	0.8	0.7	0.7
NPA coverage(%)	23.1	26.0	26.2	27.1

Du-Pont as a % of AUM

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	5.4	5.7	5.6	5.6
NII INCI. Securitization	5.4	5.7	5.6	5.6
Total income	6.9	7.1	6.9	7.0
Operating Expenses	2.9	3.2	3.2	3.3
PPOP	4.0	3.9	3.7	3.7
Total Provisions	0.2	0.1	0.2	0.2
RoAA	3.0	2.9	2.7	2.7
Avg. Assets/Avg. net worth	4.6	4.8	5.1	5.3
RoAE	13.7	14.0	13.8	14.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-22	Hold	2,300	2,197
2	31-Jul-22	Hold	2,300	2,383
3	08-Jul-22	BUY	2,300	2,006
4	08-May-22	Accumulate	2,300	2,172
5	09-Apr-22	BUY	3,500	2,485
6	11-Jan-22	BUY	3,454	2,734
7	02-Dec-21	BUY	3,500	2,810

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	2,300	2,197
2	Axis Bank	BUY	1,080	826
3	Bank of Baroda	Accumulate	130	133
4	Can Fin Homes	BUY	700	524
5	City Union Bank	BUY	190	173
6	DCB Bank	BUY	120	103
7	Federal Bank	BUY	165	130
8	HDFC	BUY	2,900	2,349
9	HDFC Bank	BUY	1,800	1,439
10	ICICI Bank	BUY	950	868
11	IDFC First Bank	UR	-	53
12	IndusInd Bank	BUY	1,450	1,218
13	Kotak Mahindra Bank	Accumulate	1,950	1,823
14	LIC Housing Finance	BUY	450	418
15	Punjab National Bank	BUY	50	36
16	State Bank of India	BUY	650	533

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Gaurav Jani- CA, CFA Level 2, Ms. Palak Shah- CA, B.Com Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Gaurav Jani- CA, CFA Level 2, Ms. Palak Shah- CA, B.Com Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com