

## V-Mart Retail Ltd.

No. of shares (m)	19.77
Mkt cap (Rs/\$m)	5531/671.4
Current price (Rs/\$)	2798/34.0
Price target (Rs/\$)	2530/30.7
52 W H/L (Rs.)	4849/2407
Book Value (Rs/\$)	439/5.3
Beta	0.7
Daily NSE volume (avg. monthly)	32030
P/BV (FY23e/24e)	6.3/5.9
EV/EBITDA(FY23e/24e)	20.9/17.6
P/E (FY23e/24e)	164.5/88.5
EPS growth (FY23e/24e)	337.5/85.9
OPM (FY22/23e/24e)	12.4/12.0/12.1
ROE (FY22/23e/24e)	0.9/3.9/6.9
ROCE(FY22/23e/24e)	5.3/5.8/7.2
D/E ratio (FY22/23e/24e)	1.1/1.1/1.1
BSE Code	534976
NSE Code	VMART
Bloomberg	VMART IN
Reuters	VMAR.NS

## Shareholding pattern%

Promoters	46.1
MFs / Banks / FIs	25.6
Foreign Portfolio Investors	18.2
Govt. Holding	-
Total Public& Others	10.1
<b>Total</b>	<b>100.0</b>

As on June 30, 2022

## Recommendation

**HOLD**

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## Quarterly Highlights

- V-Mart clocked in overall revenues of Rs. 587.88 crs in Q1FY23, witnessing a year-over-year growth of over 231% on a favourable base, though this recovery remained sluggish as excluding the contribution from Unlimited stores, V-Mart's revenues of around Rs. 470 crs grew by nearly 165% over Q1FY22 and some 4% over pre-covid levels (Q1FY20).
- Despite being the first covid free quarter for the company in the past two years, inflationary pressures played a major role in keeping consumption under check in rural and semi-urban areas thereby impacting the footfalls. On a like-to-like basis, V-Mart's footfalls were almost 20% below the pre-covid levels with a similar kind of de-growth in volumes. Disturbances due to protests in some parts of UP and Bihar and significantly delayed monsoons amplified the overall economic uncertainty impacting spending levels of V-Mart's target customers in Q1.
- Operating profits for the quarter stood at Rs. 88.71 crs as against Rs. 57.79 crs in the pre-covid era. Driven by higher contribution from Unlimited stores (20% of overall mix) which yields around 500 bps higher gross margins, overall gross margins stood at as high as 37.3% for the quarter, an increment of 670 bps over Q1FY20. Unlimited's operating expenses are on the higher side having a disproportionate impact on overall expenses, yet lower discounts and promotions aided the company in maintaining its operating margins at 15.1% when compared to 12.8% in Q1FY20. In the past few quarters, the company has managed to pass on almost full impact of increased raw material prices onto the customers resulting in little impact on margins; however this did have an impact on the overall volumes as reflected in declining sales per square feet – Rs. 626 in Q1FY23 vs. Rs. 874 in Q1FY20.
- The stock currently trades at 164.5x FY23e EPS of Rs. 17.01 and 88.5x FY24e EPS of Rs 31.63. Given the stress in the lower strata of the income group, incremental growth in the near-term would most likely come from newer stores rather than existing ones. Sales from digital channels would not likely make a dent in the overall topline, since its contribution hovers around 2%. Lower base explains much of the robust earnings growth expected this year. Weakening return on capital reveals a grave concern. Balancing odds, we assign a 'hold' rating on the stock with a target price of Rs 2530 (previous target Rs 3000).

	FY20	FY21	FY22	FY23e	FY24e
Income from operations	1662.02	1075.46	1666.18	2370.23	2731.13
Other Income	4.48	21.04	13.96	16.28	26.87
EBITDA (other income included)	218.24	152.25	218.29	300.70	357.34
PAT after EO	48.87	-5.81	7.68	33.62	62.52
EPS(Rs)	26.92	-2.95	3.89	17.01	31.63
EPS growth (%)	-27.4	-111.0	-	337.5	85.9

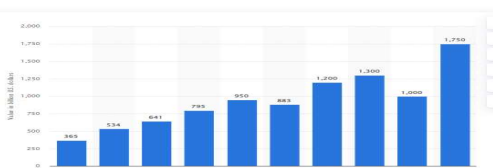
## Outlook and Recommendation

### Indian Retail Industry

Less intensive restrictions and the much shorter duration of the third wave of Covid-19 resulted in minimal disruptions in operations of brick and mortar retailers and thus increased footfalls when compared to the previous year. Crisil Research estimates the overall retail industry to have grown by 16-17% in FY22 and within this the organized brick and mortar industry clocked a growth of 19-21%. Driven by swift consumer adoption, e-commerce penetration also continued to accelerate and the industry is estimated to have grown by 27-32% during FY22.

Factors such as growing population, increasing urbanization, rising household incomes, connected rural markets, and rising consumer spending are increasing participation from global private players for retail investment. Against this favourable backdrop, capex intensity is set to increase which will help boost retail infrastructure, especially in tier II and III cities. Presently, kirana stores continued to dominate Indian retail, adopting digitalization and collaborating with larger players in this sector. As a result of the supporting infrastructure, Kearney expects India's retail sector to grow to \$1.4 trillion by 2026 and more than \$1.8 trillion by 2030.

Retail Market Size in India 2011-2026



Source: Statista

As per IBEF report, India's apparel market is estimated to be worth around \$59.3 billion in 2022 and the Indian fashion industry is slated to be the sixth largest market in the world. Some industry reports suggest that organized retailing share of apparel has increased from 14% in FY07 to 32% in FY20 reflecting capture of new incremental demand as well as market share gain from unorganized players. The share of organized segments is expected to increase further to ~45% by FY24-25 and would continue to support the growth of branded apparel as well.



Source: Crisil

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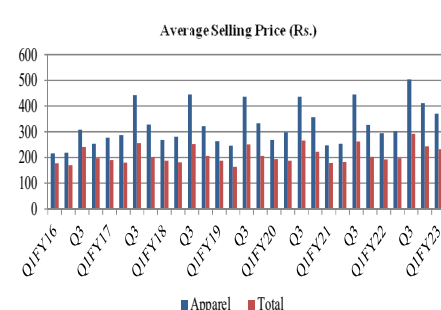
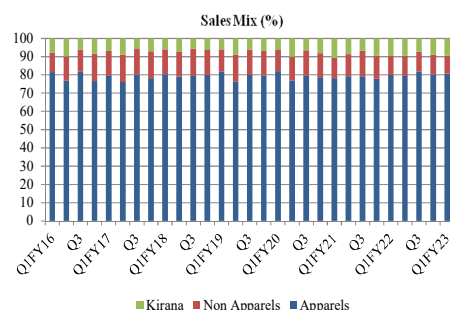
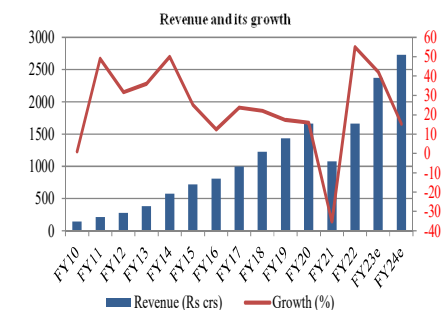
The Indian apparel retail industry is witnessing robust revival in sales, especially in the brick and mortar channel. Currently, it is being observed in the retail market that the inflationary trend in raw material prices, especially cotton yarns, and high fuel prices are major headwinds and having a cascading effect on manufacturing costs. From an organized retail perspective, some portion of the inflated raw material costs can be absorbed by the companies due to benefit of operating leverage and the balance can be passed on to customers, however, industry report suggests consumer demand could take a hit of 7-10% due to the price increases taken. Demand seems to be more impacted in the value-buy segment as compared to the premium segment. An omni-channel strategy coupled with higher store openings and increased penetration of online channels will help stimulate growth, though by some industry reports footfalls are still at 85-90% of the pre-pandemic level as bulk of the growth is due to higher realizations and moderate volumes.



# CD Euisearch Pvt Ltd

## Financials & Valuation

Long-term prospects of the retail sector (value) appear to be appealing not least due to increased penetration of organized retailers into tier-2 and smaller cities. Smaller towns are progressively emerging as new destinations for organized retailers because of better internet connectivity, and improving retail infrastructure. By some industry reports, between 2006 and 2017, tier 2 and smaller cities received five times more investments in retail infrastructure than tier 1 and metro cities. V-Mart, too, has been proactive in ramping up investments to tap similar kind of retail potential of tier 1 cities in smaller towns. V-Mart has outlined a capex of around Rs. 200 crs for FY23 to increase its foothold in smaller towns based on cluster expansion strategy. The majority of the capex would be deployed towards warehouse construction and opening 60 more retail stores.

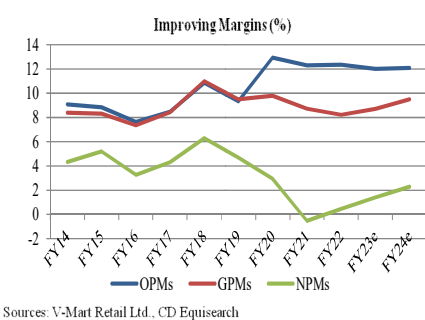
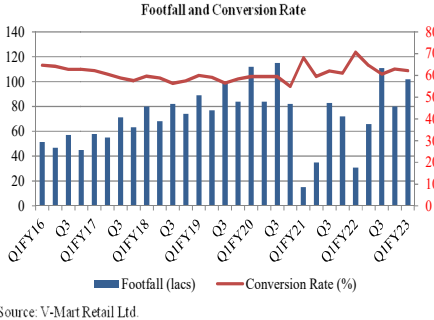
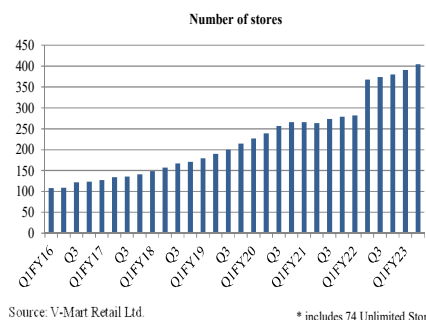


Sources: V-Mart Retail Ltd., CD Euisearch

Source: V-Mart Retail Ltd.

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Poor sales during the pandemic pushed inventory days to unprecedented levels – 137 days in FY22 vs. 102 days in FY20 – though acquisition of Unlimited last fiscal played a part too in wrecking inventory days. Inventory levels for the next few months are not expected to decline not least due to up-stocking during festival season. However, the company has been able to refresh their inventory with new stocks and manage the logistics costs, which is a critical element for the success of the fashion business.



Source: V-Mart Retail Ltd.

\* includes 74 Unlimited Stores

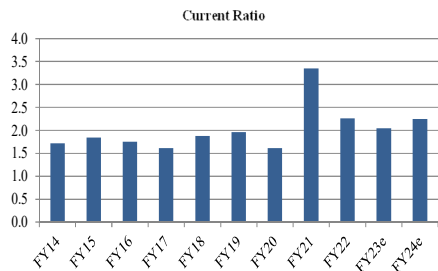
Source: V-Mart Retail Ltd.

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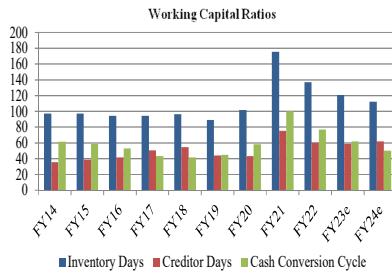
In the southern markets, Unlimited stores are witnessing healthy traction with consistent improvement in profitability. Also, since majority of Unlimited stores based in tier I and II cities, the average store performance has been relatively better than V-Mart during the quarter. Sales from Unlimited stores have grown sequentially by over 60% in Q1FY23. The company has been testing the market by opening 6 new stores in the southern markets with the same name, which have yielded healthy sales of Rs. 700/ sq. ft. that is 20-30% higher than the legacy stores of Unlimited. Though V-Mart had been able to control the de-growth in Unlimited's operations, but how the integration into a single brand would work out likely remains to be seen given the different merchandise, pricing and target customers.



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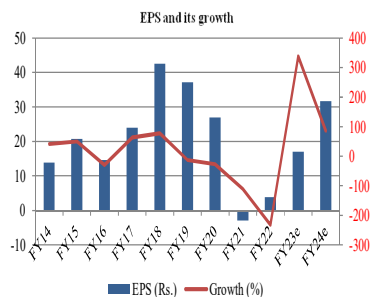


Sources: V-Mart Retail Ltd., CD Equiresearch

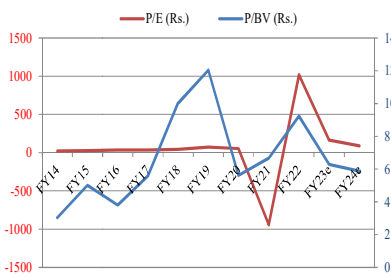


Sources: V-Mart Retail Ltd., CD Equiresearch

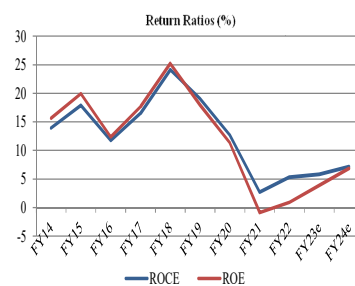
The stock currently trades at 164.5x FY23e EPS of Rs. 17.01 and 88.5x FY24e EPS of Rs 31.63. Returning mobility and higher ticket purchases led by the pent-up demand will likely drive retail spending over the coming months. Price corrections of some 5-6% taken by V-Mart’s management would most likely improve demand scenario in the legacy states. V-Mart’s aggressive store expansion strategy is needed to capture growth for propelling return on capital. However, higher interest costs and depreciation would burden profitability and keep ROE at abysmal levels. A favourable environment could help V-Mart clock in revenues of Rs. 2370.23 crs in FY23e and Rs. 2731.13 crs in FY24e, yet lingering effects of the global geopolitics and associated uncertainty have muddled economic outlook for much of the global economy, thereby precipitating the risk of missing the growth guidance. Weighing odds, we assign ‘hold’ rating on the stock with a target price of Rs 2530 (previous target Rs 3000). For more information, refer to our December 2021 report.



Sources: V-Mart Retail Ltd., CD Equiresearch



Sources: V-Mart Retail Ltd., CD Equiresearch



Sources: V-Mart Retail Ltd., CD Equiresearch



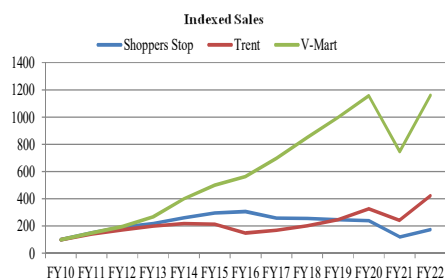
## Cross Sectional Analysis

Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	IntCov	ROE (%)	Mcap/Sales	P/BV	P/E
Shoppers Stop	55	755	8267	3262	55	15.2	1.7	1.2	96.4	2.5	84.0	151.6
Trent Ltd.	36	1423	50588	5809	370	16.0	4.0	2.1	16.4	8.7	21.0	136.6
V-Mart	20	2798	5531	2077	57	14.3	2.7	1.8	6.8	2.7	6.4	97.3

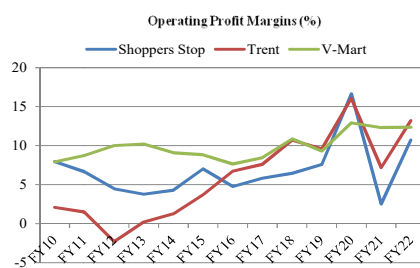
\*figures in crores; standalone/consolidated data as applicable; calculations on ttm basis.

Being the first disruption-free quarter, Shoppers Stop Ltd. recorded a strong performance in Q1FY23 with revenues surging by over 11% to Rs. 948.44 crs when compared to the pre-covid quarter. When compared to Q1FY20, Private brands, accounting for some 14% of overall sales, grew by over 29% whereas Beauty sales (16% contribution) were up by 28%. Surge in growth was observed across product categories and channels since improved consumer sentiments have led to increase in footfalls. The company raked in operating profits Rs. 162.50 crs growing by over 17% on a like-for-like basis, yielding OPMs of 17.1%. Consequently, prudent management of high input prices helped the company to clock in earnings of Rs. 22.83 crs as against a loss of Rs. 0.11 crs in Q1FY20. On the expansion side, the company opened two departmental stores, three beauty stores and one airport store during the quarter.

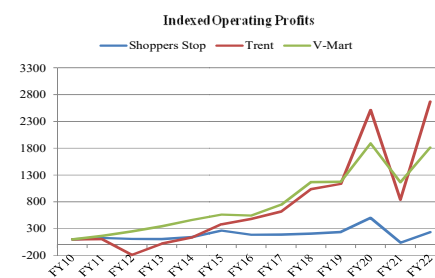
In the backdrop of a robust recovery in consumer sentiments, Trent's consolidated revenue from operations grew by over 125% to Rs. 1803.15 crs when compared to the corresponding pre-covid quarter in FY20. Driven by continued focus on expansion and curation of the store portfolio, Trent's destination brand Westside was able to achieve like-for-like growth of some 24% over pre-covid levels. Online revenues through Westside.com, TataCliq and Tata Neu contributed approximately 6% to Westside revenues, registering a year-over-year growth of 129% during the quarter. Operating profits for the quarter stood at Rs. 291.63 crs, up by almost 79% over Q1FY20. Cost mitigation measures helped the company to clock in OPMs of 16.2%, though well below pre-covid levels. As of Q1FY23, over 450 fashion stores were operational.



Sources: Companies, ACE Equity; Base Year FY10=100



Sources: Companies, ACE Equity



Sources: Companies, ACE Equity; Base Year FY10=100

Note: Graphs on standalone/consolidated data as applicable.

## Financials

### Quarterly Results

Figures in Rs crs

	Q1FY23	Q1FY22	% chg	FY22	FY21	% chg
<b>Income From Operations</b>	<b>587.88</b>	<b>177.41</b>	<b>231.4</b>	<b>1666.18</b>	<b>1075.46</b>	<b>54.9%</b>
Other Income	4.09	4.51	-9.3	13.96	21.04	-33.7%
<b>Total Income</b>	<b>591.97</b>	<b>181.92</b>	<b>225.4</b>	<b>1680.13</b>	<b>1096.50</b>	<b>53.2%</b>
Total Expenditure	499.17	179.37	178.3	1461.85	944.25	54.8%
<b>EBITDA (other income included)</b>	<b>92.80</b>	<b>2.55</b>	<b>3544.5</b>	<b>218.29</b>	<b>152.25</b>	<b>43.4%</b>
Interest	24.72	15.59	58.6	77.19	58.95	31.0%
Depreciation	40.24	25.47	58.0	130.70	102.97	26.9%
<b>PBT</b>	<b>27.84</b>	<b>-38.51</b>	-	<b>10.40</b>	<b>-9.66</b>	-
Tax	7.38	-9.80	-	-1.24	-3.46	-
<b>PAT</b>	<b>20.45</b>	<b>-28.71</b>	-	<b>11.64</b>	<b>-6.20</b>	-
Extraordinary Item	0.00	0.00	-	3.96	-0.39	-
<b>Adjusted Net Profit</b>	<b>20.45</b>	<b>-28.71</b>	-	<b>7.68</b>	<b>-5.81</b>	-
EPS (Rs)	10.35	-14.57	-	3.89	-2.95	-

### Income Statement

Figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
<b>Income From Operations</b>	<b>1662.02</b>	<b>1075.46</b>	<b>1666.18</b>	<b>2370.23</b>	<b>2731.13</b>
Growth (%)	15.9	-35.3	54.9	42.3	15.2
Other Income	4.48	21.04	13.96	16.28	26.87
<b>Total Income</b>	<b>1666.50</b>	<b>1096.50</b>	<b>1680.13</b>	<b>2386.51</b>	<b>2758.00</b>
Total Expenditure	1448.27	944.25	1461.85	2085.80	2400.66
<b>EBITDA (other income included)</b>	<b>218.24</b>	<b>152.25</b>	<b>218.29</b>	<b>300.70</b>	<b>357.34</b>
Interest	54.78	58.95	77.19	94.51	97.99
Depreciation	93.92	102.97	130.70	161.96	177.09
<b>PBT</b>	<b>69.53</b>	<b>-9.66</b>	<b>10.40</b>	<b>44.24</b>	<b>82.26</b>
Tax	20.18	-3.46	-1.24	10.62	19.74
<b>PAT</b>	<b>49.35</b>	<b>-6.20</b>	<b>11.64</b>	<b>33.62</b>	<b>62.52</b>
Extraordinary Item	0.47	-0.39	3.96	-	-
<b>Adjusted Net Profit</b>	<b>48.87</b>	<b>-5.81</b>	<b>7.68</b>	<b>33.62</b>	<b>62.52</b>
EPS (Rs)	26.92	-2.95	3.89	17.01	31.63

## Balance Sheet

Figures in Rs crs

Balance Sheet	FY20	FY21	FY22	FY23e	FY24e
<b>Sources of Funds</b>					
Share Capital	18.16	19.71	19.75	19.77	19.77
Reserves	440.78	805.52	829.87	862.01	923.04
<b>Total Shareholders' Funds</b>	<b>458.93</b>	<b>825.23</b>	<b>849.62</b>	<b>881.78</b>	<b>942.81</b>
Long Term Debt	437.84	530.78	842.94	900.00*	950.00*
<b>Total Liabilities</b>	<b>896.77</b>	<b>1356.01</b>	<b>1692.56</b>	<b>1781.78</b>	<b>1892.81</b>
<b>Application of Funds</b>					
Gross Block	820.97	948.26	1486.30	1684.68	1774.68
Less: Accumulated Depreciation	153.93	251.72	375.33	537.29	714.38
<b>Net Block</b>	<b>667.04</b>	<b>696.54</b>	<b>1110.97</b>	<b>1147.39</b>	<b>1060.30</b>
Capital Work in Progress	2.47	2.19	6.38	8.00	8.00
Investments	7.89	318.98	124.84	144.00	174.00
<b>Current Assets, Loans &amp; Advances</b>					
Inventory	477.92	428.31	668.22	711.07	764.72
Cash and Bank	4.99	27.47	35.06	98.52	250.58
Other Current Assets	30.10	110.78	74.00	99.23	111.82
<b>Total CA</b>	<b>513.01</b>	<b>566.56</b>	<b>777.28</b>	<b>908.82</b>	<b>1127.12</b>
Current Liabilities	308.54	247.86	380.32	495.94	559.04
Provisions-Short term	12.22	15.32	15.74	16.31	16.81
<b>Total Current Liabilities</b>	<b>320.76</b>	<b>263.19</b>	<b>396.06</b>	<b>512.25</b>	<b>575.85</b>
Net Current Assets	192.26	303.38	381.22	396.57	551.27
Net Deferred Tax Asset	16.01	25.27	38.63	52.33	62.56
Net long term assets (net of liabilities)	11.10	9.65	30.51	33.48	36.69
<b>Total Assets</b>	<b>896.77</b>	<b>1356.01</b>	<b>1692.56</b>	<b>1781.78</b>	<b>1892.81</b>

\*Lease liabilities



## Financial Ratios

	FY20	FY21	FY22	FY23e	FY24e
<b>Growth Ratios(%)</b>					
Revenue	15.9	-35.3	54.9	42.3	15.2
EBITDA	58.0	-29.7	40.2	40.3	18.8
Net Profit	-27.3	-111.9	-	337.9	85.9
EPS	-27.4	-111.0	-	337.5	85.9
<b>Margins (%)</b>					
Operating Profit Margin	12.9	12.3	12.4	12.0	12.1
Gross profit Margin	9.8	8.7	8.2	8.7	9.5
Net Profit Margin	2.9	-0.5	0.5	1.4	2.3
<b>Return (%)</b>					
ROCE	12.7	2.7	5.3	5.8	7.2
ROE	11.3	-0.9	0.9	3.9	6.9
<b>Valuations</b>					
Market Cap/ Sales	1.6	5.1	4.7	2.3	2.0
EV/EBITDA	14.2	37.4	40.0	20.9	17.6
P/E	52.8	-	1020.3	164.5	88.5
P/BV	5.6	6.7	9.2	6.3	5.9
<b>Other Ratios</b>					
Interest Coverage	2.3	0.8	1.1	1.5	1.8
Debt Equity#	1.1	0.7	1.1	1.1	1.1
Current Ratio	1.6	3.4	2.3	2.0	2.2
<b>Turnover Ratios</b>					
Fixed Asset Turnover	4.0	1.6	1.8	2.1	2.5
Total Asset Turnover	2.6	1.0	1.1	1.4	1.5
Inventory Turnover	3.6	2.1	2.7	3.0	3.3
Creditor Turnover	8.4	4.9	6.1	6.2	5.9
<b>WC Ratios</b>					
Inventory Days	101.8	175.4	137.1	120.7	112.2
Creditor Days	43.5	75.2	60.3	58.6	62.0
Cash Conversion Cycle	58.2	100.2	76.8	62.1	50.1

# debt includes lease liabilities



## Cumulative Financial Data

Figures in Rs crs	FY16-18	FY19-21	FY22-24e
Income from operations	3033	4171	6768
Operating profit	279	481	821
EBIT	226	284	403
PBT	218	168	133
PAT	147	110	104
Dividend	10	4	4
OPM (%)	9.2	11.5	12.1
NPM (%)	4.8	2.6	1.5
Interest coverage	27.7	2.5	1.5
ROE (%)	17.8	6.3	3.9
ROCE (%)	17.5	7.3	6.5
Debt-equity ratio*	0.0	0.7	1.1
Fixed asset turnover	8.3	3.3	2.6
Inventory turnover	3.7	3.3	3.3
Creditors turnover	7.6	6.9	6.3
Inventory days	97.5	109.1	109.8
Creditor days	48.1	53.2	57.9
Cash conversion cycle	49.4	55.9	52.0
Dividend payout ratio (%)	6.6	3.5	4.1

FY 16-18 implies three year period ending fiscal 18;\*as on terminal year

Presumably driven by the inflationary trend and recognition of additional sales from Unlimited stores, VRL's cumulative revenues would grow by 62.2% for the three year period ending FY24e to Rs. 6768 crs. The price hikes taken by the management during this inflationary period would be able to safeguard the operating margins of VRL to some extent as it would increase by 60 bps during the projected period, though the company would lose some sales due to this passing of high input prices. Operating would grow apace the topline by over 70% but high interest cost and depreciation would cause the overall profitability to decline by some 6%.

Higher free cash flows would be used to fund working capital requirements and capex plans for opening stores. Stress in earnings coupled with barely strong asset utilization (fixed asset turnover is expected to fall to 2.6 in the projected period) would plunge ROCE to 6.5% in FY22-24e. Inventory days and creditor days in the projected period would remain similar to those in the preceding three year period leading to no major change in cash conversion cycle (see table).

## Financial Summary- US dollar denominated

million \$	FY20	FY21	FY22	FY23e	FY24e
Equity capital	2.4	2.7	2.6	2.4	2.4
Shareholders' funds	60.9	112.3	111.9	106.8	114.3
Total debt	68.5	77.2	119.0	118.9	125.0
Net fixed assets (incl CWIP)	88.8	95.1	147.4	140.2	129.7
Net current assets	25.5	41.3	50.1	48.0	66.7
Total assets	119.0	184.5	223.1	216.1	229.6
Revenues	234.5	144.9	223.6	287.7	331.5
EBITDA	30.7	20.6	28.8	36.5	43.4
EBDT	23.0	12.7	18.4	25.0	31.5
PBT	9.7	-1.2	0.9	5.4	10.0
PAT	6.9	-0.8	1.0	4.1	7.6
EPS(\$)	0.38	-0.04	0.05	0.21	0.38
Book value (\$)	3.4	5.7	5.7	5.4	5.8

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs. 82.39/\$). All dollar denominated figures are adjusted for extraordinary items.



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buy: >20%    accumulate: >10% to ≤20%    hold: ≥-10% to ≤10%    reduce: ≥-20% to <-10%    sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY19	FY20	FY21	FY22
Average	69.89	70.88	74.20	74.51
Year end	69.17	75.39	73.50	75.81

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.