

Polycab India

Refer to important disclosures at the end of this report

Leading the show

Result highlights

- Polycab reported PAT of Rs3.6bn – at 9%/20% ahead of Emkay/Consensus estimates on the back of 100-160bps higher margin. Cables & Wires (C&W) reported 11.4% YoY sales growth. Sequentially, C&W margin improved 200bps to 13.7% due to product mix and judicious price revisions. FMEG performance remained subdued, with flattish YoY sales and marginally-negative EBIT due to higher ad spends (overall ad spends at 4x of 2QFY23). Management indicated to C&W margin of 11-13% over the medium term.
- We maintain BUY on the stock, with new Dec-23 TP of Rs3,147/share (earlier, Jun-23 TP of Rs2,690) based on DCF methodology, implying 30x PER (unchanged). We raise our FY24E/FY25E EPS by 3-8%. We factor-in 13% sales CAGR over FY23E-FY25E, C&W margin of 12-12.5% and FMEG margin of 4%/6% in FY24E/FY25E.
- Both B2B and B2C showing good growth:** Management indicated that while B2B growth was supported by Government-spend on Infrastructure, B2C growth is buoyed by uptick in real estate.
- Investment in the EHV cable factory; overall capex of Rs6-7bn during CY23:** Polycab aims for its own EHV cable factory over the next 2&1/2 years, as high-voltage cables have good growth opportunity over the medium term. The market for EHV is expected to reach Rs40-50bn where presently, there are only 2 Indian players; hence there is enough space for a domestic player. Overall capex for CY23 is estimated at Rs6-7bn, of which C&W contributes 75%.
- FY23 to be the base year for FMEG:** Over the last 4/5 years, while FMEG sales have more than doubled, there has not been much improvement on the margin front. Management mentioned that work on the distribution channel, new product development, brand building and premiumization is underway. Focus on the right product mix for better margin and human resource development are areas that will help in building a more profitable FMEG segment. FY23 could well be the base year for its FMEG business, and good growth is likely in the medium term. Company expects margin in this segment to move to 10% by FY26. We assume 4%/6% margin for FY24E/FY25E.
- Valuation and outlook:** Polycab has, over the years, fortified its leadership position in the C&W segment. Its increasing strength in the B2C segment bodes well for better margin and cash-flow profile ahead. We maintain BUY, with Dec-23 TP of Rs3,147/share, as we roll forward our valuation and increase our FY24E/FY25E EPS by 3-8%. We believe that improvement in the FMEG margin profile remains key to be watched.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	87,922	1,22,038	1,41,944	1,61,099	1,82,131
EBITDA	11,230	12,652	18,068	19,944	23,696
EBITDA Margin (%)	12.8	10.4	12.7	12.4	13.0
APAT	8,365	8,365	12,257	13,443	16,123
EPS (Rs)	56.1	56.0	82.0	90.0	107.9
EPS (% chg)	9.1	(0.2)	46.5	9.7	19.9
ROE (%)	19.5	16.2	20.3	19.1	19.6
P/E (x)	49.2	49.3	33.7	30.7	25.6
EV/EBITDA (x)	36.4	32.4	22.7	20.4	16.9
P/BV (x)	8.7	7.4	6.3	5.4	4.7

Source: Company, Emkay Research

CMP	Target Price
Rs 2,761 as of (January 20, 2023)	Rs 3,147 (▲) 12 months
Rating	Upside
BUY (■)	14.0 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	12%/3.3%
Target Price change (%)	17%
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	82.0	90.0
Consensus	74.8	90.2
Mean Consensus TP (12M)	Rs 2,838	

Stock Details

Bloomberg Code	POLYCAB IN
Face Value (Rs)	10
Shares outstanding (mn)	150
52 Week H/L	3,025 / 2,044
M Cap (Rs bn/USD bn)	413 / 5.10
Daily Avg Volume (nos.)	4,40,239
Daily Avg Turnover (USD mn)	14.7

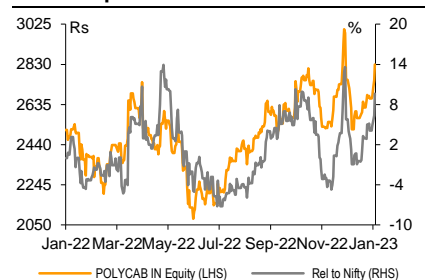
Shareholding Pattern Sep '22

Promoters	68.0%
FIIIs	6.4%
DIIIs	10.4%
Public and Others	15.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	4	26	3
Rel. to Nifty	4	2	15	1

Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Abhineet Anand

abhineet.anand@emkayglobal.com
+91 22 6624 2466

Anshul Agrawal

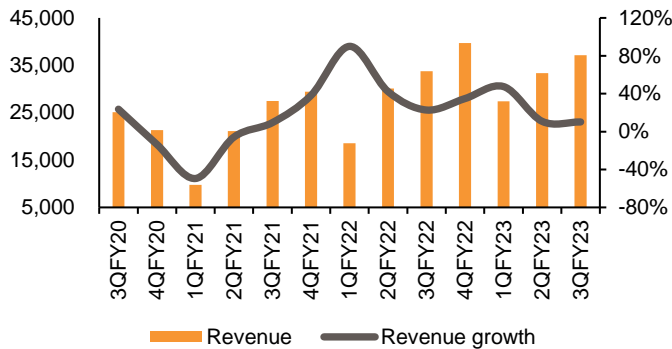
anshul.agrawal@emkayglobal.com
+91 22 6612 1228

Naman Bagrecha

naman.bagrecha@emkayglobal.com
+91 22 6612 1235

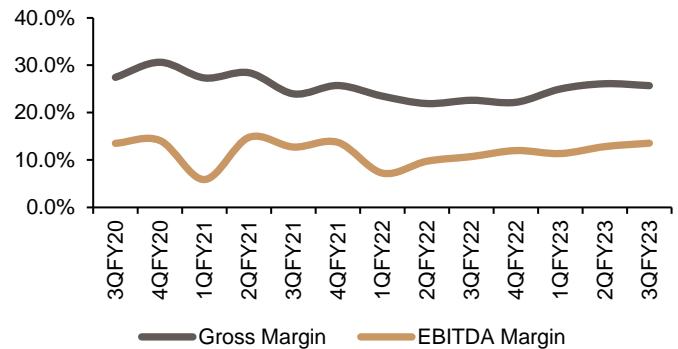
Story in Charts

Exhibit 1: Revenue growth momentum endures, aided by volumes



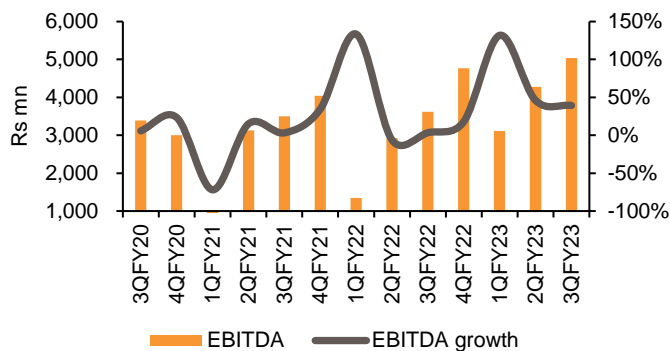
Source: Company, Emkay Research

Exhibit 2: EBITDAM expands owing to operating leverage



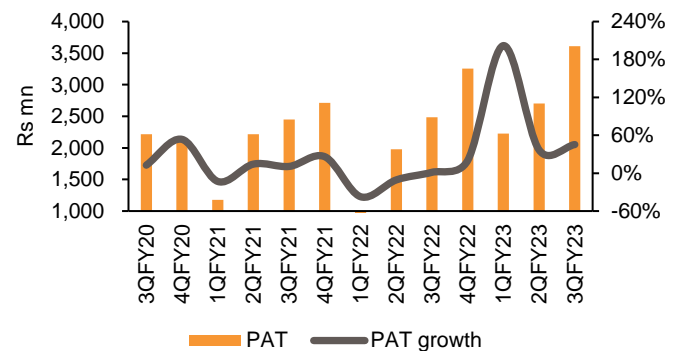
Source: Company, Emkay Research

Exhibit 3: EBITDA grows by 14% (3-yr CAGR)



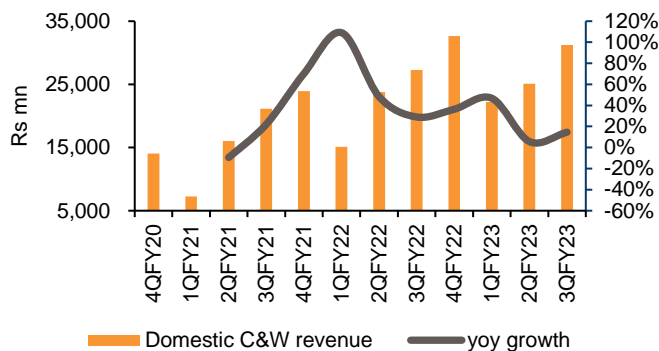
Source: Company, Emkay Research

Exhibit 4: PAT aided by MTM gains and asset monetization



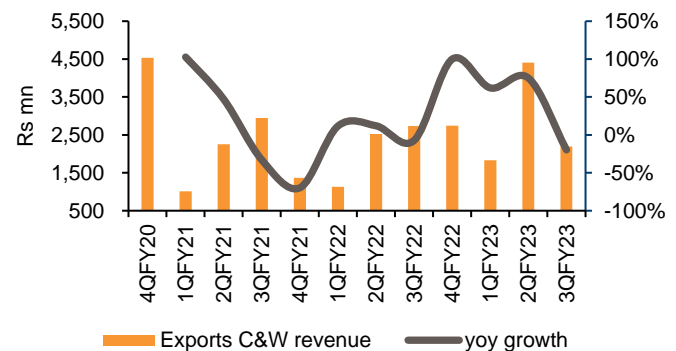
Source: Company, Emkay Research

Exhibit 5: Domestic C&W revenue rises by 15% YoY



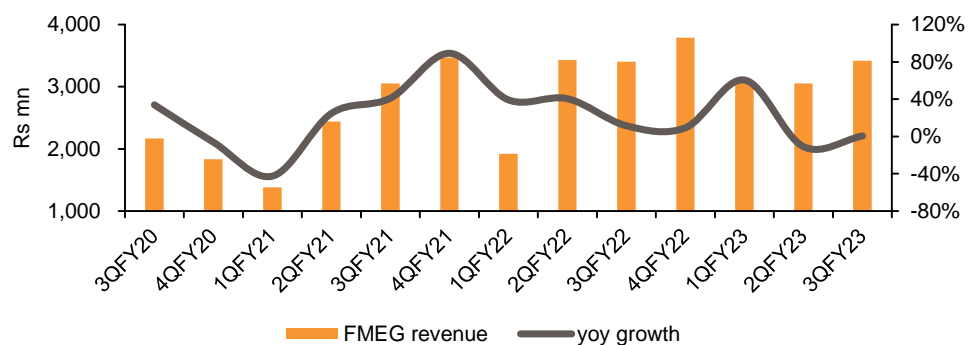
Source: Company, Emkay Research

Exhibit 6: Exports contribute 5.9% of consolidated revenues



Source: Company, Emkay Research

Exhibit 7: FMEG sees sequential growth owing to restocking of fans due to BEE norms

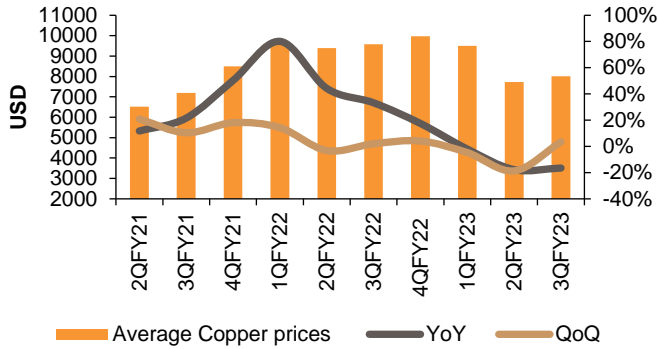


Source: Company, Emkay Research

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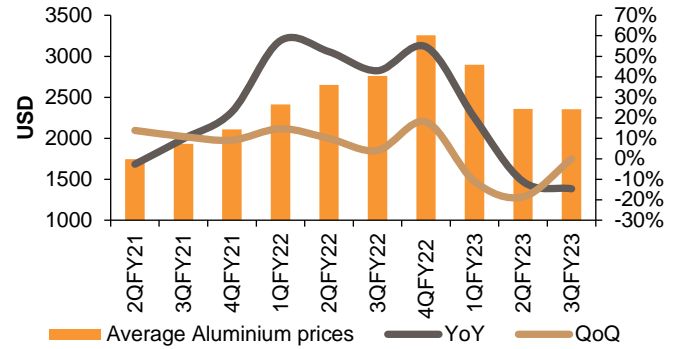
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Exhibit 8: Copper prices marginally increase QoQ...



Source: Company, Emkay Research

Exhibit 9: ...while aluminium prices remain flat QoQ



Source: Company, Emkay Research

Exhibit 10: Net cash stands at Rs10.8bn

Rs mn	Q3FY20	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Gross Debt	932	905	831	840	1,031	1,428
Acceptances	6,367	6,936	6,365	2920	10776	7870
Total Debt including acceptances	7,299	7,841	7,196	3,760	11,807	9,298
Cash	3,631	1,895	4,071	3,170	4,878	5,342
Investments	4,036	3,546	7,641	3,567	12,799	14,812
Net Debt	-368	2,400	-4,515	-2,977	-5,869	-10,857

Source: Company, Emkay Research

Exhibit 11: NWC increases, from 48 to 55 days, sequentially

Working capital days (TTM)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Receivable	44	41	27	28	27
Inventory	89	66	72	66	69
Payable	45	37	24	45	40
NWC	88	70	75	48	55

Source: Company, Emkay Research

Exhibit 12: Actual vs Estimates (Q3FY23)

(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate (Bloomberg)	Variation	
				Emkay	Consensus
Revenue	37,152	37,715	36,244	-1%	3%
EBITDA	5,038	4,714	4,335	7%	16%
EBITDA Margin	13.6%	12.5%	12.0%	106 bps	160 bps
PAT	3,608	3,310	2,998	9%	20%

Source: Company, Emkay Research

Exhibit 13: Quarterly financial summary

Rs mn	Q3FY20	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	3 yr CAGR
Wires and Cables	21,696	29,988	35,400	24,057	29,517	33,418	11.4	13.2	15.5
FMEG	2,166	3,404	3,792	3,082	3,054	3,420	0.5	12.0	16.4
Copper	0	0	0	0	0	0			
Others	1,510	989	1,044	999	1,051	1,260	27.4	19.9	-5.9
Less: Intersegment	-398	-553	-507	-450	-505	-827	49.4	63.9	27.6
Net Sales	25,073	33,720	39,700	27,366	33,324	37,152	10.2	11.5	14.0
Raw Material	18,190	26,095	30,892	20,524	24,625	27,603	5.8	12.1	14.9
as % of sales	72.5	77.4	77.8	75.0	73.9	74.3			
Employee Cost	915	1,025	1,050	1,101	1,148	1,132	10.4	(1.4)	7.4
as % of sales	3.6	3.0	2.6	4.0	3.4	3.0			
Other operating expenses	2,577	2,983	2,994	2,630	3,274	3,378	13.3	3.2	9.4
as % of sales	10.3	8.8	7.5	9.6	9.8	9.1			
Total Expenditure	21,682	30,103	34,936	24,255	29,047	32,113	6.7	10.6	14.0
EBITDA	3391	3,617	4,763	3,111	4,277	5,038	39.3	17.8	14.1
Depreciation	407	511	503	510	523	525	2.6	0.4	8.8
EBIT	2984	3,106	4,261	2,601	3,754	4,514	45.3	20.2	14.8
Other Income	3	216	168	443	-22	397	83.3	(1,890.6)	385.8
Interest	86	78	125	84	139	93	18.5	(33.4)	2.6
Exceptional		0.0	0.0	0.0	0.0	0.0			
PBT	2,902	3,244	4,304	2,960	3,593	4,818	48.5	34.1	18.4
Tax	686	763	1,047	722	880	1,202	57.5	36.6	20.6
PAT before MI	2,216	2,481	3,257	2,238	2,713	3,616	45.8	33.3	17.7
Minority interest	-2	3	-4	-13	-8	-8	(405.7)	0.1	52.2
PAT	2,214	2,484	3,254	2,225	2,705	3,608	45.3	33.4	17.7

Margins (%)							(bps)	(bps)
Gross margin	27.5	22.6	22.2	25.0	26.1	25.7	309	(40)
EBITDA	13.5	10.7	12.0	11.4	12.8	13.6	284	73
EBIT	11.9	9.2	10.7	9.5	11.3	12.1	294	88
EBT	11.6	9.6	10.8	10.8	10.8	13.0	335	219
PAT	8.8	7.4	8.2	8.1	8.1	9.7	235	159
Effective Tax rate	23.6	23.5	24.3	24.4	24.5	24.9	142	45

Source: Company, Emkay Research

Exhibit 14: Segmental breakdown

Rs mn	Q3FY20	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	3 yr CAGR
Wires and Cables	21,696	29,988	35,400	24,057	29,517	33,418	11.4	13.2	15.5
FMEG	2,166	3,404	3,792	3,082	3,054	3,420	0.5	12.0	16.4
Copper		-	-	-	-	-			
Others	1,510	989	1,044	999	1,051	1,260	27.4	19.9	-5.9
Less: Intersegment	-398	-553	-507	-450	-505	-827	49.4	63.9	27.6
Total Sales	24,975	33,827	39,730	27,688	33,117	37,271	10.2	12.5	14.3
PBIT									
Wires and Cables	2,583	3,044	4,064	2,773	3,463	4,593	50.9	32.7	21.1
FMEG	14	63	105	64	-27	-24	(138.2)	(10.8)	-219.7
Copper		-	-	-	-	-			
Others	338	106	122	125	159	152	43.3	(4.2)	-23.4
Total PBIT	2,936	3,213	4,291	2,962	3,594	4,721	47.0	31.4	17.2
Finance Costs	86	78	125	84	139	93	18.5	(33.4)	2.6
Other Income	102	109	138	121	185	277	153.7	50.2	39.7
as % of sales	0.4	0.3	0.3	0.4	0.6	0.7			
Less: Intersegment	-50	-65	-59	-39	-47	-88	34.6	85.4	20.9
PBT	2,902	3,179	4,245	2,960	3,593	4,818	51.6	34.1	18.4
PBIT Margins (%)							(bps)	(bps)	
Wires and Cables	11.9	10.2	11.5	11.5	11.7	13.7	359	201	
FMEG	0.6	1.8	2.8	2.1	(0.9)	(0.7)	(254)	18	
Copper									
Others	22.4	10.7	11.7	12.5	15.1	12.1	134	(304)	
Total PBIT	11.8	9.5	10.8	10.7	10.9	12.7	317	181	

Source: Company, Emkay Research

Other Highlights

- **Cables and Wires:** Sales grew by 11% YoY (3-yr CAGR: 15.5%), while margins stood at 13.7% (+359bps/201bps YoY/QoQ).
 - The domestic distribution-driven business volume grew by 18-19% YoY, while seeing 26% YoY growth for 9MFY23.
 - The export business contributed 5.9% to consolidated revenues, and reported 20% YoY decline in revenues.
- **FMEG:** Sales were flat YoY (3-yr CAGR: 16%); margins were down 254bps YoY, but flat QoQ, at -0.7%.
 - Fans, switchgears and switches continued to see good momentum; the growth was especially benign for fans, owing to restocking by distributors ahead of the transition to the new BEE norms.
- **Others:** Revenue was up 33% YoY to Rs1bn. EBIT margins stood at 12.1% (up 134bps YoY, while coming in down 304bps down QoQ).

Balance sheet

- Q3FY23 NWC stood at 55 days vs. 48 days in Q2FY23 and 88 days in Q3FY22. The increase was mainly due to a rise in inventory days.
- Net cash stood at ~Rs11bn as of Q3-end vs. net debt of Rs2.4bn at Q3FY22-end and net cash of ~Rs6bn at Q2FY23-end.

Exhibit 15: Changes in estimates

Rs mn	FY23E			FY24E			FY25E		
	Old	Revised	Change	Old	Revised	Change	Old	Revised	Change
Wires & Cables	1,19,058	1,26,499	6.2%	1,33,940	1,42,311	6.2%	1,50,683	1,60,100	6.2%
FMEG	13,877	13,752	-0.9%	16,930	16,777	-0.9%	20,316	20,133	-0.9%
Copper	-	-		-	-		-	-	
Others	4,073	4,224	3.7%	4,684	4,857	3.7%	4,918	5,100	3.7%
Intersegmental	-2,084	-2,530	21.4%	-2,344	-2,846	21.4%	-2,637	-3,202	21.4%
Revenue	1,34,924	1,41,944	5.2%	1,53,209	1,61,099	5.1%	1,73,279	1,82,131	5.1%
EBITDA	16,301	18,068	10.8%	19,299	19,944	3.3%	21,980	23,696	7.8%
EBITDA margin (%)	12.1	12.7	65 bps	12.6	12.4	-22 bps	12.7	13.0	33 bps
PAT	10,945	12,257	12.0%	13,016	13,443	3.3%	14,880	16,123	8.4%
EPS (Rs)	73.2	82	12.0%	87.1	90	3.3%	100	108	8.4%

Source: Emkay Research

Exhibit 16: Key Assumptions

Key Assumption	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue							
Cable& Wires	70,643	75,898	74,570	1,06,302	1,26,499	1,42,311	1,60,100
- growth	12%	7%	-2%	43%	19%	13%	13%
FMEG	6,433	8,356	10,335	12,502	13,752	16,777	20,133
- growth	33%	30%	24%	21%	10%	22%	20%
Others (incl. EPC)	4,637	5,965	2,433	3,017	4,224	4,857	5,100
- growth	86%	29%	-59%	24%	40%	15%	5%
Copper	0	0	5,330	-	-	-	-
- growth				-100%			
Less: intersegmental	-1,348	-1,441	-4,665	-1,744	-2,530	-2,846	-3,202
Net sales	80,365	88,778	88,002	1,20,076	1,41,944	1,61,099	1,82,131
- growth	18%	10%	-1%	36%	18%	13%	13%
Segmental EBIT							
Cables & Wires	8,351	9,309	9,060	10,545	15,686	17,077	20,013
FMEG	75	168	566	196	138	671	1,208
Others (incl. EPC)	198	903	456	499	591	583	612
Copper	-	-	560	-	-	-	-
EBIT Margin							
Cable& Wires	11.8%	12.3%	12.1%	9.9%	12.4%	12.0%	12.5%
FMEG	1.2%	2.0%	5.5%	1.6%	1.0%	4.0%	6.0%
Others (incl. EPC)	4.3%	15.1%	18.8%	16.5%	14.0%	12.0%	12.0%
Copper			10.5%				

Source: Company, Emkay Research

Con-call Highlights

Cables & Wires

- The C&W business saw 18-19% volume growth YoY, while growing by 26% for 9MFY23.
- The C&W mix was 70-30 earlier and has improved to 60-40 now. The Wires business entails more margins than the cables business. With further increase in the wires business, profitability is set to gradually improve.
- EBIT margin for the wires business is 15%, while being 11% for Cables. The Wires business requires ad spends, whereas there are no ad spends in Cables.
- Pricing is revised on a monthly basis.
- Extra high voltage: The plant will be commissioned in the next 2-2½ years and, according to Management, the asset turns would be similar to that of the existing C&W business. The market for this would be Rs40-50bn by FY26E.

FMEG

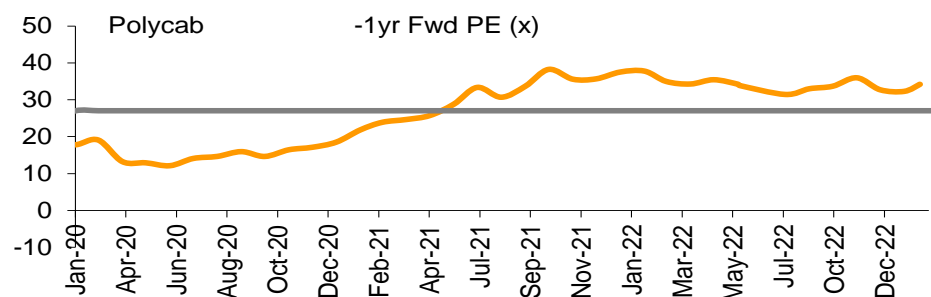
- Among products, Fans registered the fastest growth, of around 24% YoY for the quarter, due to liquidation of non-BEE products.
- Switch and switchgears showed double-digit growth.
- FY23 to be considered as the base year for the FMEG business.
- The switches & switchgear business has better margins than fans and lighting which is 2/3rd of FMEG business.
- Management guided for 10% EBIT margin in FY26. Margin levers for the FMEG business are: favorable product mix, as switch & switchgears contribution is set to increase, product availability across price-points, innovative products, economies of scale, and ad spends for brand building.
- A new facility for switches will be set up in Daman, and expansion at the Nasik facility for switchgears will commence.
- Its Roorkee facility for fans is fully utilized and its Halol facility will be as big as the facility at Roorkee.

Others

- CY23 capex would be Rs6-7bn, of which 75% is for the C&W business and the balance 25% for the FMEG business.
- Price hike will be taken once BEE inventory is out in the market, which may happen this quarter.
- Company is working towards maintaining a 50-50 B2B and B2C mix.
- Other income is higher, owing to mutual-fund gains and monetization of assets.

Valuation chart

Exhibit 17: Avg 1-yr fwd PER for Polycab over the last 3 years is 27x



Source: Emkay Research, Bloomberg

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	87,922	1,22,038	1,41,944	1,61,099	1,82,131
Expenditure	76,692	1,09,386	1,23,876	1,41,155	1,58,435
EBITDA	11,230	12,652	18,068	19,944	23,696
Depreciation	1,866	2,015	2,144	2,427	2,710
EBIT	9,364	10,637	15,924	17,517	20,987
Other Income	1,282	899	937	919	1,090
Interest expenses	531	352	359	338	382
PBT	10,115	11,184	16,502	18,099	21,695
Tax	1,791	2,706	4,154	4,555	5,461
Extraordinary Items	97	0	0	0	0
Minority Int./Income from Assoc.	36	(61)	(91)	(101)	(111)
Reported Net Income	8,462	8,365	12,257	13,443	16,123
Adjusted PAT	8,365	8,365	12,257	13,443	16,123

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	1,491	1,494	1,494	1,494	1,494
Reserves & surplus	46,048	53,943	63,810	74,295	86,871
Net worth	47,539	55,437	65,304	75,790	88,366
Minority Interest	188	251	251	251	251
Loan Funds	2,487	831	598	674	758
Net deferred tax liability	418	272	272	272	272
Total Liabilities	50,633	56,791	66,424	76,986	89,646
Net block	18,696	16,751	18,520	19,952	21,123
Investment	6,349	7,733	7,733	7,733	7,733
Current Assets	44,112	45,880	60,435	71,655	86,511
Cash & bank balance	5,314	4,071	2,572	6,891	13,741
Other Current Assets	3,155	5,922	7,008	7,928	9,014
Current liabilities & Provision	19,515	17,328	24,019	26,108	29,475
Net current assets	24,597	28,552	36,416	45,546	57,036
Misc. exp	0	0	0	0	0
Total Assets	50,633	56,791	66,424	76,986	89,646

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	8,833	10,285	15,565	17,179	20,605
Other Non-Cash items	0	0	0	0	0
Chg in working cap	1,120	(5,345)	(9,363)	(4,811)	(4,639)
Operating Cashflow	10,517	3,100	2,337	8,071	10,798
Capital expenditure	(4,920)	(2,834)	(3,913)	(3,859)	(3,881)
Free Cash Flow	5,597	265	(1,576)	4,212	6,917
Investments	(5,695)	(1,384)	0	0	0
Other Investing Cash Flow	(787)	(951)	(21)	(20)	(22)
Investing Cashflow	(10,120)	(4,270)	(2,997)	(2,960)	(2,813)
Equity Capital Raised	2	3	0	0	0
Loans Taken / (Repaid)	916	(1,655)	(234)	77	84
Dividend paid (incl tax)	0	(1,492)	(2,390)	(2,957)	(3,547)
Other Financing Cash Flow	4,530	8,737	6,215	4,999	9,601
Financing Cashflow	4,917	5,241	3,232	1,780	5,756
Net chg in cash	5,314	4,071	2,572	6,891	13,741
Opening cash position	2,813	5,314	4,071	2,572	6,891
Closing cash position	5,314	4,071	2,572	6,891	13,741

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	12.8	10.4	12.7	12.4	13.0
EBIT Margin	10.7	8.7	11.2	10.9	11.5
Effective Tax Rate	17.7	24.2	25.2	25.2	25.2
Net Margin	9.5	6.9	8.7	8.4	8.9
ROCE	23.4	21.5	27.4	25.7	26.5
ROE	19.5	16.2	20.3	19.1	19.6
RoIC	21.3	20.4	25.5	23.6	25.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	56.1	56.0	82.0	90.0	107.9
CEPS	68.6	69.5	96.4	106.2	126.0
BVPS	318.8	371.0	437.0	507.1	591.3
DPS	0.0	10.0	16.0	19.8	23.7

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	49.2	49.3	33.7	30.7	25.6
P/CEPS	40.2	39.8	28.7	26.0	21.9
P/BV	8.7	7.4	6.3	5.4	4.7
EV / Sales	4.7	3.4	2.9	2.5	2.2
EV / EBITDA	36.4	32.4	22.7	20.4	16.9
Dividend Yield (%)	0.0	0.4	0.6	0.7	0.9

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.1)	(0.1)	0.0	(0.1)	(0.1)
Net Debt/EBIDTA	(0.3)	(0.3)	(0.1)	(0.3)	(0.5)
Working Cap Cycle (days)	80.0	73.2	87.0	87.6	86.8

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(0.4)	38.8	16.3	13.5	13.1
EBITDA	(1.1)	12.7	42.8	10.4	18.8
EBIT	(3.9)	13.6	49.7	10.0	19.8
PAT	10.5	(1.1)	46.5	9.7	19.9

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	33,720	39,700	27,366	33,324	37,152
EBITDA	3,617	4,763	3,111	1,471	4,004
EBITDA Margin (%)	10.7	12.0	11.4	4.4	10.8
PAT	2,484	3,254	2,251	(84)	2,590
EPS (Rs)	16.7	21.9	15.1	(0.6)	17.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	68.4	68.2	68.1	68.0	68.0
FIs	6.9	6.4	5.8	5.7	6.4
DIs	8.8	8.7	9.2	9.0	10.4
Public and Others	16.0	16.8	17.0	17.3	15.2

Source: Capitaline

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com