

October 31, 2023

## Q2FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	<b>HOLD</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>689</b>		<b>721</b>	
Sales (Rs.m)	22,504	24,857	22,597	25,036
% Chng.	(0.4)	(0.7)		
EBITDA (Rs.m)	2,925	3,828	3,322	4,006
% Chng.	(11.9)	(4.4)		
EPS (Rs.)	10.2	15.7	12.9	17.0
% Chng.	(21.1)	(7.2)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	20,823	22,504	24,857	27,989
EBITDA (Rs. m)	3,138	2,925	3,828	4,730
Margin (%)	15.1	13.0	15.4	16.9
PAT (Rs. m)	1,846	1,444	2,230	2,904
EPS (Rs.)	13.0	10.2	15.7	20.5
Gr. (%)	175.3	(21.8)	54.4	30.2
DPS (Rs.)	4.5	3.5	4.5	4.5
Yield (%)	0.7	0.6	0.7	0.7
RoE (%)	30.7	20.6	26.5	28.1
RoCE (%)	25.9	19.9	24.5	27.8
EV/Sales (x)	4.3	4.0	3.6	3.2
EV/EBITDA (x)	28.6	30.7	23.2	18.7
PE (x)	47.1	60.1	38.9	29.9
P/BV (x)	13.5	11.4	9.4	7.6

### Key Data

### VIPI.BO | VIP IN

52-W High / Low	Rs.765 / Rs.549
Sensex / Nifty	63,875 / 19,080
Market Cap	Rs.87bn/ \$ 1,045m
Shares Outstanding	142m
3M Avg. Daily Value	Rs.722.14m

### Shareholding Pattern (%)

Promoter's	51.23
Foreign	7.76
Domestic Institution	14.70
Public & Others	26.32
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(6.6)	3.2	(17.9)
Relative	(3.7)	(1.3)	(22.0)

**Jinesh Joshi**

jineshjoshi@plindia.com | 91-22-66322238

**Stuti Beria**

stutiberia@plindia.com | 91-22-66322246

## Higher opex dents EBITDA margin

### Quick Pointers:

- GM rises to 55.5% amid improvement in product mix and accrual of full benefits arising from falling crude price in earlier quarters.
- EBITDA margin falters to 9.7% amid rise in A&P spends to Rs560mn.

**We cut our EPS estimates by 21%/7%/2% for FY24E/FY25E/FY26E and downgrade the stock to a HOLD as we re-align our indirect cost assumptions in light of weak performance in 2QFY24 which was marred by 1) higher A&P spends of Rs560mn 2) additional outgo of Rs150mn pertaining to freight & warehousing and 3) one-time expense of Rs60mn relating to a payment made to BCG to fast track growth in e-com channel. Nonetheless, GM improvement to 55.5% was noteworthy but we believe sustainability can prove to be a challenge given rising crude prices. VIP has been facing considerable growth challenges over the last 2 quarters (top-line growth of 7.0% YoY in 1HFY24) and it remains to be seen whether a change of guard at top-level can bring an end to concerns surrounding erosion in market share. We expect sales/EBITDA CAGR of 10%/15% over FY23-FY26E and downgrade the stock to a HOLD with a TP of Rs689 (earlier Rs721) valuing it at 38x Sep-25 EPS (no change in target multiple).**

**Revenue increased 6.1% YoY:** Top-line increased 6.1% YoY to Rs5,461mn (PL of Rs5,508mn). In 1HFY24, backpacks/handbags contributed 13%/4% to the top-line.

**GM bounces back to 55.5%:** Gross profit increased 22.4% YoY to Rs3,031mn (PL of Rs2,699mn) with margin of 55.5% (PL of 49.0%). GM improvement was due to better product mix and accrual of full benefits arising from falling crude price in earlier quarters.

**EBITDA margin falters to 9.7%:** EBITDA decreased 26.1% YoY to Rs529mn (PL of Rs700mn) with a margin of 9.7% (PL 12.7%). EBITDA margin was below our estimates due to higher than expected other expenses of Rs1,841mn (PL Rs1,322mn) largely led by higher A&P spends.

**Adjusted PAT at Rs133mn:** Adjusted PAT decreased 69.4% YoY to Rs133mn (PL of Rs344mn) with a margin of 2.4% (PL 6.2%) as compared to margins of 8.4%/5.0% in Q2FY23/Q1FY24 respectively.

**Con-call highlights:** 1) 26 new launches are scheduled in the next three to four months. 2) A&P spends stood at Rs560mn in 2QFY24 (of which Rs230mn was spent on performance marketing). 3) Rs60mn was paid to BCG for an e-commerce project, while Rs150mn was incurred for additional freight & handling charges. 4) Majority of the inventory worth Rs7,635mn, consists of backpacks. 5) In 2QFY24, VIP opened 37 EBOs, and has signed up stores at 6 airports exclusively for Carlton. 6) Capex plan of Rs2bn has been put on hold, and additional sum of Rs500mn will be incurred to expand HL capacity, of which Rs250-300mn has already been spent. Overall capex guidance for FY24E is pegged at Rs800-850mn. 7) VIP targets to open ~100 EBO's in FY24E, with 63 stores already opened in 1HFY24. 8) Current capacity stands at 17 lakh pieces and will be increased to 20 lakh pieces.

## Exhibit 1: Q2FY24 Result Overview - Consolidated (Rs mn)

Y/e March	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.	H1FY24	H1FY23	YoY gr.
<b>Net sales</b>	<b>5,461</b>	<b>5,147</b>	<b>6.1%</b>	<b>6,361</b>	<b>-14.2%</b>	<b>11,822</b>	<b>11,054</b>	<b>7.0%</b>
Total raw material cost	2,430	2,671	-9.0%	3,214	-24.4%	5,644	5,628	0.3%
<i>As a % of sales</i>	<i>44.5%</i>	<i>51.9%</i>		<i>50.5%</i>		<i>47.7%</i>	<i>50.9%</i>	
<b>Gross Profit</b>	<b>3,031</b>	<b>2,477</b>	<b>22.4%</b>	<b>3,147</b>	<b>-3.7%</b>	<b>6,178</b>	<b>5,426</b>	<b>13.9%</b>
<i>Gross margin</i>	<i>55.5%</i>	<i>48.1%</i>		<i>49.5%</i>		<i>52.3%</i>	<i>49.1%</i>	
Employee expenses	662	578	14.4%	663	-0.2%	1,325	1,180	12.3%
<i>As a % of sales</i>	<i>12.1%</i>	<i>11.2%</i>		<i>10.4%</i>		<i>11.2%</i>	<i>10.7%</i>	
Other expenses	1,841	1,183	55.6%	1,678	9.7%	3,518	2,504	40.5%
<i>As a % of sales</i>	<i>33.7%</i>	<i>23.0%</i>		<i>26.4%</i>		<i>29.8%</i>	<i>22.7%</i>	
<b>EBITDA</b>	<b>529</b>	<b>716</b>	<b>-26.1%</b>	<b>806</b>	<b>-34.4%</b>	<b>1,335</b>	<b>1,742</b>	<b>-23.4%</b>
<i>EBITDA margin</i>	<i>9.7%</i>	<i>13.9%</i>		<i>12.7%</i>		<i>11.3%</i>	<i>15.8%</i>	
Depreciation	238	180	32.6%	209	14.1%	447.0	359.9	24.2%
<b>EBIT</b>	<b>291</b>	<b>536</b>	<b>-45.8%</b>	<b>597</b>	<b>-51.3%</b>	<b>888</b>	<b>1,382</b>	<b>-35.8%</b>
<i>EBIT margin</i>	<i>5.3%</i>	<i>10.4%</i>		<i>9.4%</i>		<i>7.5%</i>	<i>12.5%</i>	
Interest cost	124	69	78.6%	108	14.8%	231.3	134.6	71.8%
Other income	26	53	-51.3%	26	-2.7%	52	123	-57.7%
<b>PBT</b>	<b>193</b>	<b>520</b>	<b>-62.9%</b>	<b>516</b>	<b>-62.6%</b>	<b>709</b>	<b>1,371</b>	<b>-48.3%</b>
Exceptional items	-	-	NM	(258)		(258)	(150)	NM
Tax expenses	60	86	-30.1%	196	-69.5%	256.1	395.7	-35.3%
<i>Tax rate</i>	<i>31.1%</i>	<i>16.5%</i>		<i>25.4%</i>		<i>26.5%</i>	<i>26.0%</i>	
<b>PAT</b>	<b>133</b>	<b>434</b>	<b>-69.4%</b>	<b>578</b>	<b>-77.0%</b>	<b>710</b>	<b>1,125</b>	<b>-36.9%</b>
<i>PAT margin</i>	<i>2.4%</i>	<i>8.4%</i>		<i>9.1%</i>		<i>6.0%</i>	<i>10.2%</i>	
<b>EPS (Rs)</b>	<b>0.9</b>	<b>3.1</b>	<b>-69.4%</b>	<b>4.1</b>	<b>-77.0%</b>	<b>5.0</b>	<b>8.0</b>	<b>-36.9%</b>
<b>Adjusted PAT</b>	<b>133</b>	<b>434</b>	<b>-69.4%</b>	<b>320</b>	<b>-58.5%</b>	<b>453</b>	<b>975</b>	<b>-53.6%</b>
<i>Adjusted PAT margin</i>	<i>2.4%</i>	<i>8.4%</i>		<i>5.0%</i>		<i>3.8%</i>	<i>8.8%</i>	
<b>Adjusted EPS (Rs)</b>	<b>0.9</b>	<b>3.1</b>	<b>-69.4%</b>	<b>2.3</b>	<b>-58.5%</b>	<b>3.2</b>	<b>6.9</b>	<b>-53.6%</b>

Source: Company, PL

## Exhibit 2: Sales &amp; profitability profile of Bangladesh operations

Particulars (Rs mn)	2Q'21	3Q'21	4Q'21	1Q'22	2Q'22	3Q'22	4Q'22	1Q'23	2Q'23	3Q'23	4Q'23	1Q'24	2Q'24	FY22	FY23	FY24E	FY25E	FY26E
Sales	182	270	770	530	770	1,250	1,610	1,862	1,363	1,693	1,750	1,360	1,829	4,160	6,667	6,334	7,284	8,376
PAT	(24)	(10)	80	(4)	(11)	86	33	220	166	295	(48)	146	238	104	633	792	983	1,173
<i>PAT margin</i>	<i>NM</i>	<i>NM</i>	<i>10.4%</i>	<i>NM</i>	<i>NM</i>	<i>6.9%</i>	<i>2.0%</i>	<i>11.8%</i>	<i>12.2%</i>	<i>17.4%</i>	<i>NM</i>	<i>10.7%</i>	<i>13.0%</i>	<i>2.5%</i>	<i>9.5%</i>	<i>12.5%</i>	<i>13.5%</i>	<i>14.0%</i>
<i>Bangladesh's sales as % of total sales</i>	<i>17.7%</i>	<i>11.6%</i>	<i>31.7%</i>	<i>25.7%</i>	<i>23.3%</i>	<i>31.5%</i>	<i>45.2%</i>	<i>31.5%</i>	<i>26.5%</i>	<i>32.2%</i>	<i>38.8%</i>	<i>21.4%</i>	<i>33.5%</i>	<i>32.3%</i>	<i>32.0%</i>	<i>28.1%</i>	<i>29.3%</i>	<i>29.9%</i>
Standalone PAT#	(223)	(87)	(119)	35	236	276	91	678	322	572	(113)	459	(24)	637	1,609			
<i>Standalone PAT margin</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>1.7%</i>	<i>7.3%</i>	<i>7.1%</i>	<i>2.6%</i>	<i>12.0%</i>	<i>6.4%</i>	<i>11.1%</i>	<i>NM</i>	<i>7.4%</i>	<i>NM</i>	<i>5.1%</i>	<i>8.0%</i>			

Source: Company, PL # PAT for 1QFY20/1QFY23 is adjusted for exceptional items \* Figures for 3QFY20 were not shared

## Exhibit 3: Gross &amp; EBITDA margin trend is volatile due to fluctuation in currency &amp; raw material prices

Particulars	2QFY21*	3QFY21*	4QFY21*	1QFY22*	2QFY22*	3QFY22*	4QFY22*	1QFY23*	2QFY23*	3QFY23*	4QFY23*	1QFY24*	2QFY24*
Gross margin	38.7%	38.4%	43.8%	50.9%	47.1%	48.9%	53.3%	49.9%	48.1%	49.4%	57.9%	49.5%	55.5%
EBITDA margin	NM	3.5%	1.3%	6.3%	12.7%	14.4%	9.2%	17.4%	13.9%	13.9%	14.3%	12.7%	9.7%

Source: Company, PL \*Ind-AS adjusted EBITDA margin

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>20,823</b>	<b>22,504</b>	<b>24,857</b>	<b>27,989</b>
YoY gr. (%)	61.5	8.1	10.5	12.6
Cost of Goods Sold	10,188	10,757	11,807	13,127
Gross Profit	10,635	11,747	13,050	14,862
Margin (%)	51.1	52.2	52.5	53.1
Employee Cost	2,356	2,588	2,834	3,079
Other Expenses	5,141	6,234	6,388	7,053
<b>EBITDA</b>	<b>3,138</b>	<b>2,925</b>	<b>3,828</b>	<b>4,730</b>
YoY gr. (%)	117.3	(6.8)	30.8	23.6
Margin (%)	15.1	13.0	15.4	16.9
Depreciation and Amortization	737	788	870	980
<b>EBIT</b>	<b>2,401</b>	<b>2,138</b>	<b>2,958</b>	<b>3,751</b>
Margin (%)	11.5	9.5	11.9	13.4
Net Interest	285	349	249	224
Other Income	171	135	149	196
<b>Profit Before Tax</b>	<b>1,965</b>	<b>1,666</b>	<b>2,859</b>	<b>3,723</b>
Margin (%)	9.4	7.4	11.5	13.3
Total Tax	442	480	629	819
Effective tax rate (%)	22.5	28.8	22.0	22.0
<b>Profit after tax</b>	<b>1,523</b>	<b>1,186</b>	<b>2,230</b>	<b>2,904</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,846</b>	<b>1,444</b>	<b>2,230</b>	<b>2,904</b>
YoY gr. (%)	175.7	(21.8)	54.4	30.2
Margin (%)	8.9	6.4	9.0	10.4
Extra Ord. Income / (Exp)	(322)	(258)	-	-
<b>Reported PAT</b>	<b>1,523</b>	<b>1,186</b>	<b>2,230</b>	<b>2,904</b>
YoY gr. (%)	127.6	(22.1)	88.0	30.2
Margin (%)	7.3	5.3	9.0	10.4
Other Comprehensive Income	(132)	(1)	-	-
Total Comprehensive Income	1,392	1,186	2,230	2,904
<b>Equity Shares O/s (m)</b>	<b>142</b>	<b>142</b>	<b>142</b>	<b>142</b>
<b>EPS (Rs)</b>	<b>13.0</b>	<b>10.2</b>	<b>15.7</b>	<b>20.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,285</b>	<b>6,604</b>	<b>7,923</b>	<b>9,298</b>
Tangibles	5,190	6,490	7,790	9,140
Intangibles	96	115	134	159
<b>Acc: Dep / Amortization</b>	<b>2,194</b>	<b>2,981</b>	<b>3,851</b>	<b>4,831</b>
Tangibles	2,113	2,884	3,737	4,697
Intangibles	81	97	114	134
<b>Net fixed assets</b>	<b>3,092</b>	<b>3,623</b>	<b>4,072</b>	<b>4,468</b>
Tangibles	3,077	3,605	4,052	4,442
Intangibles	15	18	20	25
Capital Work In Progress	153	153	153	153
Goodwill	-	-	-	-
Non-Current Investments	222	280	308	346
Net Deferred tax assets	294	294	294	294
Other Non-Current Assets	268	265	276	292
<b>Current Assets</b>				
Investments	225	225	225	225
Inventories	5,871	6,165	6,333	7,055
Trade receivables	2,554	3,083	3,405	3,987
Cash & Bank Balance	365	672	1,161	1,149
Other Current Assets	1,005	1,125	1,193	1,287
<b>Total Assets</b>	<b>14,153</b>	<b>16,024</b>	<b>17,575</b>	<b>19,428</b>
<b>Equity</b>				
Equity Share Capital	283	283	283	283
Other Equity	6,134	7,339	8,932	11,198
<b>Total Network</b>	<b>6,417</b>	<b>7,623</b>	<b>9,215</b>	<b>11,481</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,299	1,299	1,299	1,299
Provisions	156	158	174	196
Other non current liabilities	0	2	2	3
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	2,224	2,614	2,114	1,614
Trade payables	3,087	3,391	3,746	3,834
Other current liabilities	950	888	971	940
<b>Total Equity &amp; Liabilities</b>	<b>14,153</b>	<b>16,024</b>	<b>17,575</b>	<b>19,428</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	1,965	1,924	2,859	3,723
Add. Depreciation	737	788	870	980
Add. Interest	285	349	249	224
Less Financial Other Income	171	135	149	196
Add. Other	243	258	-	-
Op. profit before WC changes	3,230	3,318	3,977	4,926
Net Changes-WC	(962)	(695)	(116)	(1,333)
Direct tax	(519)	(481)	(629)	(819)
<b>Net cash from Op. activities</b>	<b>1,749</b>	<b>2,143</b>	<b>3,232</b>	<b>2,774</b>
Capital expenditures	(1,058)	(800)	(500)	(350)
Interest / Dividend Income	9	-	-	-
Others	204	(582)	(857)	(1,075)
<b>Net Cash from Invt. activities</b>	<b>(845)</b>	<b>(1,382)</b>	<b>(1,357)</b>	<b>(1,425)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	583	390	(500)	(500)
Dividend paid	(638)	(496)	(637)	(637)
Interest paid	(164)	(349)	(249)	(224)
Others	(527)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(746)</b>	<b>(454)</b>	<b>(1,386)</b>	<b>(1,361)</b>
<b>Net change in cash</b>	<b>158</b>	<b>307</b>	<b>489</b>	<b>(13)</b>
Free Cash Flow	680	1,343	2,732	2,424

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Net Revenue</b>	<b>5,264</b>	<b>4,506</b>	<b>6,361</b>	<b>5,461</b>
YoY gr. (%)	32.5	26.6	7.7	6.1
Raw Material Expenses	2,662	1,899	3,214	2,430
Gross Profit	2,602	2,607	3,147	3,031
Margin (%)	49.4	57.9	49.5	55.5
<b>EBITDA</b>	<b>730</b>	<b>643</b>	<b>806</b>	<b>529</b>
YoY gr. (%)	27.7	97.3	(21.5)	(26.1)
Margin (%)	13.9	14.3	12.7	9.7
Depreciation / Depletion	181	196	209	238
<b>EBIT</b>	<b>549</b>	<b>447</b>	<b>597</b>	<b>291</b>
Margin (%)	10.4	9.9	9.4	5.3
Net Interest	66	84	108	124
Other Income	26	45	26	26
<b>Profit before Tax</b>	<b>509</b>	<b>(64)</b>	<b>774</b>	<b>193</b>
Margin (%)	9.7	(1.4)	12.2	3.5
Total Tax	68	(22)	196	60
Effective tax rate (%)	13.3	33.6	25.4	31.1
<b>Profit after Tax</b>	<b>441</b>	<b>(43)</b>	<b>578</b>	<b>133</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>441</b>	<b>(515)</b>	<b>320</b>	<b>133</b>
YoY gr. (%)	31.8	NA	(40.9)	(69.4)
Margin (%)	8.4	NA	5.0	2.4
Extra Ord. Income / (Exp)	-	(472)	(258)	-
<b>Reported PAT</b>	<b>441</b>	<b>(43)</b>	<b>578</b>	<b>133</b>
YoY gr. (%)	31.8	NA	(16.4)	(69.4)
Margin (%)	8.4	NA	9.1	2.4
Other Comprehensive Income	(9)	(44)	2	(2)
<b>Total Comprehensive Income</b>	<b>432</b>	<b>(87)</b>	<b>579</b>	<b>131</b>
Avg. Shares O/s (m)	142	142	142	142
<b>EPS (Rs)</b>	<b>3.1</b>	<b>(3.6)</b>	<b>2.3</b>	<b>0.9</b>

Source: Company Data, PL Research

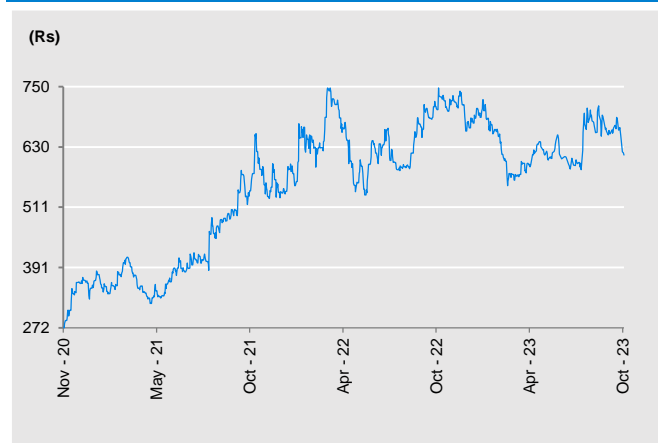
### Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	13.0	10.2	15.7	20.5
CEPS	18.2	15.8	21.9	27.4
BVPS	45.3	53.8	65.1	81.1
FCF	4.8	9.5	19.3	17.1
DPS	4.5	3.5	4.5	4.5
<b>Return Ratio(%)</b>				
RoCE	25.9	19.9	24.5	27.8
ROIC	22.2	18.3	21.8	24.3
RoE	30.7	20.6	26.5	28.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.5	0.4	0.2	0.1
Net Working Capital (Days)	94	95	88	94
<b>Valuation(x)</b>				
PER	47.1	60.1	38.9	29.9
P/B	13.5	11.4	9.4	7.6
P/CEPS	33.6	38.9	28.0	22.4
EV/EBITDA	28.6	30.7	23.2	18.7
EV/Sales	4.3	4.0	3.6	3.2
Dividend Yield (%)	0.7	0.6	0.7	0.7

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-23	Accumulate	721	668
2	04-Aug-23	Accumulate	707	598
3	07-Jul-23	BUY	866	610
4	13-Jun-23	BUY	913	621
5	09-May-23	BUY	900	623
6	11-Apr-23	BUY	969	602
7	27-Jan-23	BUY	1,014	700
8	06-Jan-23	BUY	1,013	675

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	650	560
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	700	720
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,701	2,536
6	Lemon Tree Hotels	BUY	140	119
7	Music Broadcast	Hold	18	11
8	Navneet Education	BUY	205	166
9	Nazara Technologies	Hold	836	834
10	PVR Inox	BUY	1,984	1,745
11	S Chand and Company	BUY	338	280
12	Safari Industries (India)	BUY	4,559	4,337
13	V.I.P. Industries	Accumulate	721	668
14	Zee Entertainment Enterprises	BUY	314	262

## PL's Recommendation Nomenclature (Absolute Performance)

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

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**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**

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