

Deepak Nitrite Ltd. (DNL)

No. of shares (m)	136.4
Mkt cap (Rs crs/\$m)	38590/4619.0
Current price (Rs/\$)	2829/33.9
Price target (Rs/\$)	2596/31.1
52 W H/L (Rs.)	3169/1922
Book Value (Rs/\$)	359/4.3
Beta	1.0
Daily volume NSE (avg. monthly)	292810
P/BV (FY25e/26e)	7.0/5.8
EV/EBITDA (FY25e/26e)	25.6/20.4
P/E (FY25e/26e)	41.5/32.7
EPS growth (FY24/25e/26e)	-12.1/23.8/27.1
OPM (FY24/25e/26e)	14.7/16.2/17.6
ROE (FY24/25e/26e)	17.3/18.2/19.5
ROCE(FY24/25e/26e)	16.8/17.5/18.8
D/E ratio (FY24/25e/26e)	0.1/0.1/0.0
BSE Code	506401
NSE Code	DEEPAKNT
Bloomberg	DN IN
Reuters	DPNT.NS

Shareholding pattern

	%
Promoters	49.2
MFs / Banks / FIs	21.2
Foreign Portfolio Investors	6.9
Govt. Holding	-
Public & others	22.7
Total	100.0

As on June 30, 2024

Recommendation

HOLD

Analyst

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Company brief

Sorted into advanced intermediates and phenolics, DNL's product portfolio comprises organic, inorganic and fine chemicals.

Highlights

- Driven by higher volumes in performance products and fuel additives, Deepak's advanced intermediates business saw a modest revenue growth last quarter. Slowdown in demand in Western world was countered by foray in newer regions which also led to improvement in product mix. The business suffered from the onslaught of inventory destocking by Chinese suppliers and elevated freight rates which took the sheen off exports to EU and US. Its EBIT margin all but swooned to 9.3% in Q1FY25 when compared with 16.25 in the same quarter a year ago.
- Deepak's AI business continued to feel the pressure on product realizations accentuated by timid recovery in global agro chemicals industry. The business outlook continues to be muddled by demand stress in agro chemicals industry, though other end user segments such as dyes & pigments, paper, homecare, etc. have started to see improvement in demand.
- Higher realizations aided revenues of Deepak's phenol business, which saw 37.1% growth last quarter. Buoyed by strong domestic demand, IPA too saw record dispatches. With improved show of phenol business, Deepak's overall operating margins rose by some 240 bps last quarter which precipitated some 47% growth in operating profit. Post tax earnings too grew by an eye popping 35.1% to Rs 202.54 crs when compared with Rs 149.90 crs in the same quarter a year ago.
- The stock currently trades at 41.5x FY25e EPS of Rs 68.10 and 32.7x FY26e EPS of Rs 86.55. With improvement in throughput of phenol and commissioning of new projects, post-tax earnings would grow by over 25% (annual) over the next two years. ROE would stabilize too. Yet friction from Chinese dumping and agro chemical industry slowdown would jeopardize scaling, more so when ramp up in newer capacities, be it MIBK/MIBC or nitric are not untaxing. Fluctuations in global freight rates will be all but unsettle exports of advanced intermediates. Weighing odds, we assign hold rating on the stock with revised target of Rs 2596 (previous target: Rs 2426) based on 30x FY26e earnings over a period of 6-9 months.

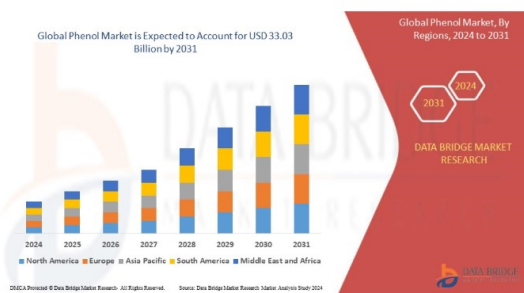
Consolidated (Rs crs)	FY22	FY23	FY24	FY25e	FY26e
Income from operations	6802.19	7972.06	7681.83	8909.06	10335.56
Other Income	42.61	47.58	155.90	50.91	56.48
EBITDA (other income included)	1648.52	1338.86	1282.45	1493.02	1878.66
Profit after associate profit (adjusted for EO)	1067.21	853.71	750.38	928.77	1180.52
EPS (Rs)	78.24	62.59	55.01	68.10	86.55
EPS growth (%)	37.3	-20.0	-12.1	23.8	27.1

Outlook & Recommendation

Global Phenol Update

According to a report by IMARC Group, the global phenol market is estimated to grow by a CAGR of 4% during 2024-32. The factors that will support the market expansion to \$33.6 bn by 2032 from \$23.4 bn in 2024 include growing demand for cleaning and sanitizing products, rising use in paints, adhesives and coatings and increasing utilization of phenol as bio preservatives. Phenol is expected to find higher demand for its use in manufacturing of personal care products.

Global Phenol Market



The report states that Asia Pacific region would continue to dominate the market for phenol with several factors supporting its rise to the pinnacle. Some of the pointers which would buoy the demand from Asia-Pacific region include growing investments in the chemical industry, rising installation of advanced machinery to boost the production rate and increasing demand for various personal care products. Catalysts for phenol demand also include increasing construction of various residential and commercial buildings and growing demand for renovation and remodeling of public infrastructures.

As per a report by Data Bridge Market Research, innovations in phenol production processes are also driving the market growth. It contends that new technologies and processes are being developed to produce phenol more efficiently and sustainably, reducing production costs and environmental impact. Further, the industry is also seeing a notable shift towards bio-based phenol sourced from renewable raw materials. This transition is prompted by a rising consumer preference for sustainable products, driving industries to seek environmentally friendly alternatives.

Yet Data Bridge cites that the impact of price volatility on market stability is significant for growth of phenol market. Uncertainty in pricing is making it challenging for both manufacturers and buyers of phenol and its derivatives to plan and budget effectively. Another major challenge for the market include rapid price changes disrupting supply chains, leading to inventory management issues and increased costs for businesses.



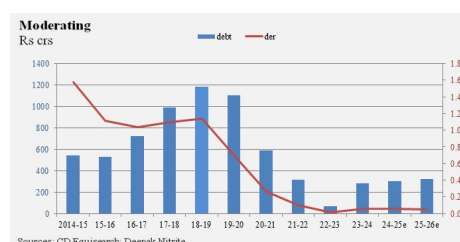
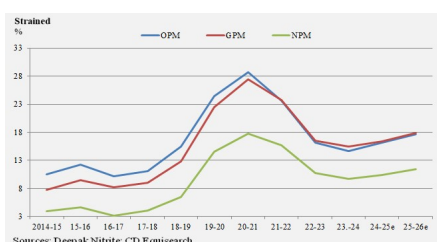
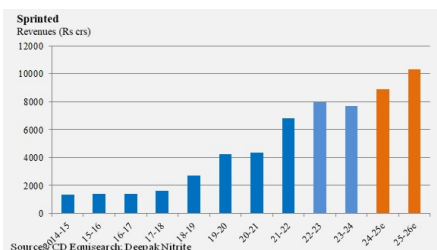
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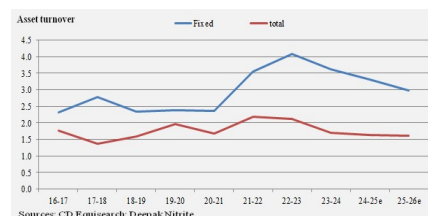
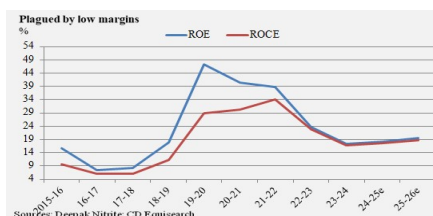
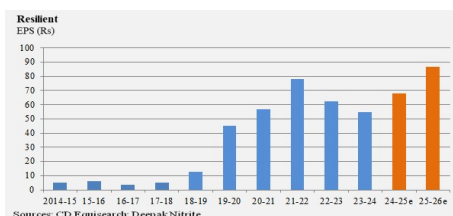
Financials & Valuation

Much lies beyond the bright prospects of Indian chemical industry for the Indian speciality chemicals industry is projected to grow by CAGR of 12% from 2020 to 2025 driven by innovations and surging demand across industries and applications. Some of the tailwinds catalyzing Indian speciality chemicals industry include emergence of India as an alternative supplier to China which has been buffeted by stringent safety regulations; improvement in R&D and process engineering capabilities in India; increasing government sourcing from domestic suppliers; fiscal incentives favoring enhanced domestic production.

DNL expects more than a handful of projects to commission by the end of the current fiscal - various projects which are in final stages of completion include MIBK and MIBC; nitric acid; hydrogenation etc. Besides, its new R&D centre in Savli, Vadodara may see the light of the day by the end of current fiscal. Also in the wings is the mammoth capacity of acetophenone - to be manufactured from a byproduct of phenol- which could churn out wares for commercial sale by early part of the next financial year.



Much glinted projects include nitric acid (expected commissioning H2FY25) and MIBK/MIBC (by end of FY25). DNL's resolution to deepen integration is well underway as MIBK/MIBC projects would ensure forward integration of acetone. These endeavors follow spirited attempts last fiscal to debottleneck phenol capacities, commission fluorination plant; enhance DASDA and OBA capacities by nearly a fifth. Besides, Deepak Chem Tech Limited, a wholly subsidiary of DNL, has signed a MoU with the Government of Gujarat in January to invest Rs 9000 crs in Dahej for setting up production facilities for advanced materials and products that power future solutions such as polycarbonate resins & compounds, methyl methacrylate (MMA), its polymer poly methyl methacrylate (PMMA) resins and compounds and aniline.



The stock currently trades at 41.5x FY25e EPS of Rs 68.10 and 32.7x FY26e EPS of Rs 86.55. Buffeted by gut-wrenching Chinese dumping and slowdown in agro-chemical industry, DNL's advanced intermediate margins has been dropping for the last few quarters and shown little signs of let up. With phenol plant operating at well-nigh optimal capacity, much of the scaling would hinge on downstream products of acetone and other newer products. Elevated freight rate has made propping exports all the more arduous. Though new products launches and raw material sourcing agreements may help, yet a full blown recovery in Indian chemical industry would await subsiding of risk of Chinese indiscriminate dumping. Weighing odds, we assign hold rating on the stock with revised target of Rs 2596 (previous target: Rs 2426) based on 30x FY26e earnings over a period of 6-9 months. For more info, refer to our Aug 23 report.

Cross Sectional Analysis

Company	Equity (Rs crs)	CMP (Rs crs)	Mcap (Rs crs)	Inc. from ops. (Rs crs)	Profit (Rs crs)	OPM (%)	NPM (%)	Int. cov.	ROE (%)	Mcap / IO	P/BV	P/E
Atul Ltd	29	7509	22109	4866	330	14.0	6.6	32.6	6.6	4.5	4.2	67.0
Deepak Nitrite	27	2829	38590	8080	803	15.2	9.9	58.4	17.8	4.8	7.9	48.1
Sudarshan Chem	14	1063	7357	2564	120	12.8	4.7	5.7	10.6	2.9	6.3	61.4
Aarti Inds.	181	587	21278	6813	487	15.9	7.1	3.0	9.4	3.1	3.9	43.7

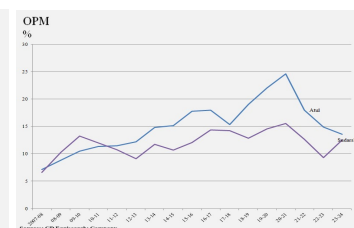
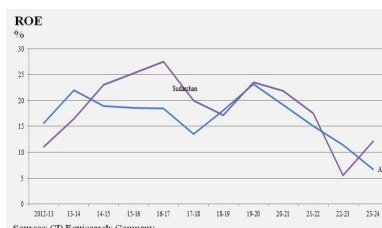
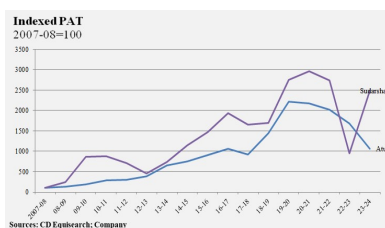
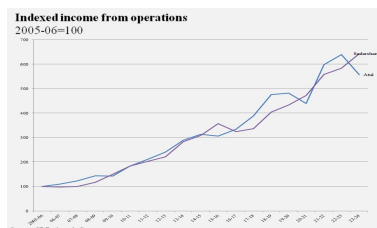
calculations on ttm basis

Companies not truly comparable due to product dissimilarities

Much of the expected recovery in Atul's earnings over the next few quarters stems from multitude of factors: stabilization of Atul Products caustic chlorine plant; commissioning of phosgene downstream products plant which was destroyed by fire; improving finished product prices; turnaround in retail crop protection business. Yet teething problems in Anaven - plant continues to operate at suboptimal capacity due to lower product offtake and falling chlorine prices (imperiling production ramp up at Atul Products) barely lends antifragility to earnings. Atul's pharma business was a mixed bag last fiscal as volume growth of 13% was accompanied with 16% decline in revenues of Atul Biosciences (its 100% subsidiary) as the latter reduced its exposure to non-strategic areas of the business.

Benefitted by softening raw material prices, Sudarshan's pigments business saw expansion in gross margins last quarter, while strong volume growth helped growth in EBITDA. Higher margins also manifested in over 40% growth in earnings before tax at a time when sales grew by a modest 4.2% last quarter. Much of the focus over the next few quarters would be laid on expanding its product portfolio and on deepening its geographical expansion. With increasing share of speciality segment revenues, overall margins may inch upwards.

Aarti's JV with UPL would see focus on supplying downstream of amines that have applications in agrochemicals and paints. With that in sight, the JV plans to undertake a capex of Rs 300 crs and the commercial production is expected to commence by Q1FY27. Aarti managed to complete Phase 2 acid revamp cum expansion in Q1 while its other expansion projects such as NT & ethylation expansion, debottlenecking and expansion of few specialty chemicals units, greenfield chloro toluene project, MPP, etc. are progressing well. Its future expansion projects would focus on setting up universal multipurpose plants, introducing chloro-toluene value chain and on tapping custom manufacturing opportunities.



Financials

Income Statement - Consolidated

Figures in Rs crs

	Q1FY25	Q1FY24	% chg.	FY24	FY23	% chg.
Income from operations	2166.84	1768.34	22.5	7681.83	7972.06	-3.6
Other Income	18.81	31.87	-41.0	155.90	47.58	227.7
Total Income	2185.65	1800.21	21.4	7837.73	8019.64	-2.3
Total Expenditure	1857.65	1558.59	19.2	6555.28	6680.78	-1.9
PBIDT (other income included)	328.00	241.62	35.8	1282.45	1338.86	-4.2
Interest	5.75	1.81	217.7	15.10	26.68	-43.4
Depreciation	47.45	38.08	24.6	165.66	166.30	-0.4
PBT	274.80	201.73	36.2	1101.69	1145.88	-3.9
Tax	72.27	51.83	39.4	290.83	293.88	-1.0
PAT	202.53	149.90	35.1	810.86	852.00	-4.8
MI	-0.01	-	-	-0.01	-	-
Associate profit	0.00	-	-	0.03	-	-
Net profit after MI & Asso.profit	202.54	149.90	35.1	810.90	852.00	-4.8
Extraordinary Item	-	-	-	60.52	-1.71	-3638.6
Adjusted Net Profit	202.54	149.90	35.1	750.38	853.71	-12.1
EPS (F.V. 2)	14.85	10.99	35.1	55.01	62.59	-12.1

Segment Results

Figures in Rs crs

	Q1FY25	Q1FY24	% chg.	FY24	FY23	% chg.
Segment Revenue						
Advanced Intermediates	715.69	708.31	1.0	2723.88	3033.55	-10.2
Phenolics	1463.63	1067.88	37.1	5003.45	4970.49	0.7
Total	2179.32	1776.19	22.7	7727.33	8004.04	-3.5
Inter segment revenue	12.48	7.85	59.0	45.50	31.98	42.3
Income from operations	2166.84	1768.34	22.5	7681.83	7972.06	-3.6
Segment EBIT						
Advanced Intermediates	66.51	114.91	-42.1	445.85	555.06	-19.7
Phenolics	207.57	87.62	136.9	643.92	594.46	8.3
Total	274.08	202.53	35.3	1089.77	1149.52	-5.2
Interest	5.75	1.81	217.7	11.83	24.77	-52.2
Other Unallocable Exp. (net of income)	-6.47	-1.01	540.6	-23.75	-21.13	12.4
PBT	274.80	201.73	36.2	1101.69	1145.88	-3.9

Financials

Income Statement - Consolidated

Figures in Rs crs

	FY22	FY23	FY24	FY25e	FY26e
Income from operations	6802.19	7972.06	7681.83	8909.06	10335.56
<i>Growth (%)</i>	56.0	17.2	-3.6	16.0	16.0
Other Income	42.61	47.58	155.90	50.91	56.48
Total Income	6844.80	8019.64	7837.73	8959.96	10392.04
Total Expenditure	5196.28	6680.78	6555.28	7466.95	8513.38
EBITDA (other income included)	1648.52	1338.86	1282.45	1493.02	1878.66
Interest	36.37	26.68	15.10	28.67	31.30
EBDT	1612.15	1312.18	1267.35	1464.35	1847.36
Depreciation	177.70	166.30	165.66	202.47	243.43
Tax	367.81	293.88	290.83	333.14	423.44
Net profit	1066.64	852.00	810.86	928.74	1180.49
MI	0.00	0.00	-0.01	-0.01	-0.01
Associate profit	0.00	0.00	0.03	0.02	0.02
Net profit after MI	1066.64	852.00	810.90	928.77	1180.52
Extraordinary item	-0.57	-1.71	60.52	-	-
Adjusted Net Profit	1067.21	853.71	750.38	928.77	1180.52
EPS (Rs.)	78.24	62.59	55.01	68.10	86.55

Segment Results

Figures in Rs crs

	FY22	FY23	FY24	FY25e	FY26e
Segment Revenue					
Advanced Intermediates	2511.05	3033.55	2723.88	3050.75	3599.88
Phenolics	4303.42	4970.49	5003.45	5904.07	6789.68
Total	6814.47	8004.04	7727.33	8954.82	10389.56
Inter segment revenue	12.28	31.98	45.50	45.76	54.00
Income from operations	6802.19	7972.06	7681.83	8909.06	10335.56
Segment EBIT					
Advanced Intermediates	595.73	555.06	445.85	457.61	611.98
Phenolics	867.11	594.46	643.92	826.57	1018.45
Sub Total	1462.84	1149.52	1089.77	1284.18	1630.43
Interest	34.05	24.77	11.83	28.67	31.30
Other Unallocable Exp. (net of income)	-5.66	-21.13	-23.75	-6.36	-4.80
PBT	1434.45	1145.88	1101.69	1261.88	1603.93

Consolidated Balance Sheet

Figures in Rs crs

	FY22	FY23	FY24	FY25e	FY26e
SOURCES OF FUNDS					
Share Capital	27.28	27.28	27.28	27.28	27.28
Reserves	3311.16	4062.68	4769.34	5595.81	6674.04
Total Shareholders Funds	3338.44	4089.95	4796.62	5623.09	6701.32
Long term debt	200.37	58.43	279.23	300.00	320.00
Minority interest	0.00	0.00	26.06	26.05	26.04
Total Liabilities	3538.81	4148.38	5101.91	5949.14	7047.36
APPLICATION OF FUNDS					
Gross Block	2566.85	2707.17	3223.53	4223.53	5223.53
Less: Accumulated Depreciation	603.43	765.56	930.81	1133.28	1376.71
Net Block	1963.42	1941.61	2292.72	3090.25	3846.82
Capital Work in Progress	122.23	300.83	773.51	800.00	700.00
Investments	439.02	379.35	121.85	102.71	152.71
Current Assets, Loans & Advances					
Inventory	584.55	893.07	759.91	835.90	919.49
Sundry Debtors	1129.06	1309.52	1298.35	1514.54	1757.05
Cash and Bank	41.79	39.95	465.46	372.08	536.50
Other Assets	92.55	119.66	198.72	173.87	209.97
Total CA & LA	1847.95	2362.20	2722.44	2896.39	3423.01
Current liabilities	739.22	779.39	767.63	896.21	1016.92
Provisions	7.70	14.37	17.43	19.66	22.02
Total Current Liabilities	746.92	793.76	785.06	915.87	1038.94
Net Current Assets	1101.03	1568.44	1937.38	1980.52	2384.07
Net Deferred Tax (net of liability)	-122.87	-156.47	-171.45	-188.06	-206.94
Other Assets (Net of liabilities)	35.98	114.63	147.90	163.72	170.70
Total Assets	3538.81	4148.38	5101.91	5949.14	7047.36

Key Financial Ratios

	FY22	FY23	FY24	FY25e	FY26e
Growth Ratios					
Revenue (%)	56.0	17.2	-3.6	16.0	16.0
EBIDTA (%)	29.5	-18.8	-10.4	24.4	25.8
Net Profit (%)	37.3	-20.0	-12.1	23.8	27.1
EPS (%)	37.3	-20.0	-12.1	23.8	27.1
Margins					
Operating Profit Margin (%)	23.6	16.2	14.7	16.2	17.6
Gross Profit Margin (%)	23.7	16.5	15.4	16.4	17.9
Net Profit Margin (%)	15.7	10.7	9.8	10.4	11.4
Return					
ROCE (%)	34.1	22.9	16.8	17.5	18.8
ROE (%)	38.7	23.6	17.3	18.2	19.5
Valuations					
Market Cap / Sales	4.5	3.2	3.8	4.3	3.7
EV/EBIDTA	18.5	18.5	23.9	25.6	20.4
P/E	28.7	29.4	38.6	41.5	32.7
P/BV	9.4	6.3	6.2	7.0	5.8
Other Ratios					
Interest Coverage	40.5	44.0	68.5	45.0	52.2
Debt-Equity Ratio	0.1	0.0	0.1	0.1	0.0
Current Ratio	2.7	3.1	3.2	2.9	3.1
Turnover Ratios					
Fixed Asset Turnover	3.6	4.1	3.6	3.3	3.0
Total Asset Turnover	2.2	2.1	1.7	1.6	1.6
Debtors Turnover	7.2	6.5	5.9	6.3	6.3
Inventory Turnover	10.7	9.0	7.9	9.4	9.7
Creditors Turnover	11.0	11.4	10.5	11.5	11.1
WC Ratios					
Debtor Days	50.6	55.8	62.0	57.6	57.8
Inventory Days	34.0	40.4	46.0	39.0	37.6
Creditor Days	33.3	32.1	34.6	31.7	33.0
Cash Conversion Cycle	51.2	64.1	73.3	65.0	62.4

Cumulative Financial Data

Figures in Rs crs	FY21-23	FY24-26e
Income from operations	19134	26926
Operating profit	4151	4391
EBIT	3766	3960
PBT	3624	3885
PAT	2698	2860
Dividends	273	307
OPM (%)	21.7	16.3
NPM (%)	14.1	10.6
Interest coverage	26.8	52.8
ROE (%)	32.4	18.0
ROCE (%)	27.7	17.7
Debt-equity ratio*	0.0	0.0
Fixed asset turnover	3.4	3.1
Debtors turnover	6.6	5.9
Inventory turnover	7.8	8.3
Creditors turnover	9.7	10.1
Debtors days	55.0	62.4
Inventory days	47.1	44.0
Creditor days	37.5	36.2
Cash conversion cycle	64.6	70.2
Dividend payout ratio (%)	10.1	10.5

FY21-23 implies three years ending fiscal 23; *as on terminal year; consolidated data

Commissioning of commercial production of a plethora of projects ranging from nitric acid to MIBK and MIBC to other specialty chemicals would barely impede cumulative revenues during FY24-26e. Recovery in agro chemical industry, if it materializes, would boost operating margins, though not by enough to match FY21-23's. (16.3% vs 21.7%). Though Deepak's phenol business margin could see some margin resurrection with higher output and launch of derivatives, but it is unlikely to well-nigh its record EBIT margin of over 20% seen during Covid period. Thence, cumulative operating profit growth is estimated to barely exceed 6% during FY24-26 period (see table).

Sub-optimal utilization of newly unveiled capacities coupled with modest recovery in margins would all but stoke earnings growth - cumulative post tax earnings to advance by a puny 6%. Its untoward impact on ROE cannot be undone if not for a miraculous rebound in global chemical industry which has seen hurt by global economic slowdown and Chinese dumping. Yet low debt and healthy cash conversion cycle would provide help in lessening business risk in turbulent times.

Financial Summary – US dollar denominated

million \$	FY22	FY23	FY24	FY25e	FY26e
Equity capital	3.6	3.3	3.3	3.3	3.3
Shareholders funds	427.8	485.0	563.0	660.8	789.9
Total debt	41.4	8.5	33.5	35.9	38.3
Net fixed assets (incl CWIP)	275.1	272.7	367.8	465.6	544.2
Investments	57.9	46.1	14.6	12.3	18.3
Net current assets	132.6	178.3	220.1	224.8	273.1
Total assets	454.2	492.1	599.7	699.8	831.3
Revenues	912.9	991.6	927.8	1066.4	1237.1
EBITDA	221.3	166.7	145.0	178.7	224.9
EBDT	216.5	163.4	143.1	175.3	221.1
PBT	192.6	142.7	123.1	151.0	192.0
Profit after associate profit	143.2	106.2	90.6	111.2	141.3
EPS(\$)	1.05	0.78	0.66	0.82	1.04
Book value (\$)	3.14	3.56	4.13	4.84	5.79

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (Rs 83.55/\$). All dollar denominated figures 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/\$	FY20	FY21	FY22	FY23	FY24
Average	70.88	74.20	74.51	80.39	82.79
Year end	75.39	73.50	75.81	82.22	83.37

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.