

October 31, 2024

Q2FY25 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	ACCUMULATE		BUY	
Target Price	10,353		10,399	
Sales (Rs. m)	226,454	264,453	228,543	265,412
% Chng.	(0.9)	(0.4)		
EBITDA (Rs. m)	19,382	22,554	20,246	22,902
% Chng.	(4.3)	(1.5)		
EPS (Rs.)	265.3	311.8	279.4	317.4
% Chng.	(5.1)	(1.7)		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	161,530	193,416	226,454	264,453
EBITDA (Rs. m)	15,223	16,090	19,382	22,554
Margin (%)	9.4	8.3	8.6	8.5
PAT (Rs. m)	8,251	8,497	10,658	12,525
EPS (Rs.)	205.4	211.5	265.3	311.8
Gr. (%)	29.4	3.0	25.4	17.5
DPS (Rs.)	40.0	63.5	79.6	93.5
Yield (%)	0.4	0.7	0.8	1.0
RoE (%)	27.0	20.4	22.0	22.1
RoCE (%)	40.4	31.8	33.7	34.2
EV/Sales (x)	2.3	1.9	1.7	1.4
EV/EBITDA (x)	24.8	23.4	19.4	16.5
PE (x)	45.9	44.6	35.5	30.2
P/BV (x)	9.8	8.5	7.3	6.2

Key Data

APAR.BO | APR IN

52-W High / Low	Rs.11,025 / Rs.4,824
Sensex / Nifty	79,942 / 59,749
Market Cap	Rs.379bn/ \$ 4,505m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.1465.88m

Shareholding Pattern (%)

Promoter's	57.77
Foreign	10.97
Domestic Institution	20.41
Public & Others	10.85
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.0)	19.7	85.9
Relative	4.4	11.5	49.0

Amit Anwani

amitanwani@plindia.com | 91-22-66322250

Shirom Kapur

shiromkapur@plindia.com | 91-22-66322344

Prathmesh Salunkhe

prathmeshsalunkhe@plindia.com |

Decent quarter; export recovery in focus

Quick Pointers:

- Intense Chinese competition and supply chain disruptions led to lower export volume while domestic business remain robust.
- Conductors order book stood at Rs66.2bn with premium products contributing ~42%, while Cables order book stood at Rs17.8bn.

We revise our FY25/26E EPS estimates by -6.2%/-5.1% factoring in lower sales volume and lower export mix impacting margins in the Conductor segment, and downgrade the rating to 'Accumulate' from Buy with a revised SoTP-derived TP of Rs10,353 (Rs10,399 earlier). Apar Industries (APR) reported 18.4% YoY revenue growth while EBITDA margin declined 118bps YoY to 7.7%. Domestic demand outlook is set to remain robust, supported by continued capex in transmission infrastructure. While exports have been impacted by heightened competition from China, inquiry levels are showing improvement in the U.S. and Europe leading to better anticipated exports in H2FY25. Global reconductoring opportunities are expected to drive growth for conductors, while accelerated execution in the energy evacuation, defense and railway sectors will support growth in the cables segment. Additionally, rising demand for transformers, driven by the energy transition, will further aid growth in the specialty oils business. The company's strategic focus on high-growth sectors, such as data centers, HVDC, and renewable energy, is anticipated to drive the next phase of growth.

We are positive on APR owing to of 1) robust T&D capex driving demand across segments, 2) focus on premium conductors in domestic market, 3) healthy traction in elastomeric cables used in renewables, defence and railways, and 4) market leadership in the growing T-oils business. The stock is trading at a P/E of 44.6x/35.5x/30.2x on FY25/26/27E earnings. We roll forward to Sep'26E and value the Conductors/Cables/ Specialty Oil segments at PE of 39x/43x/17x (40x/43x/17x FY26E earlier). Downgrade to 'Accumulate'

Strong domestic sales drive topline growth: Consolidated revenue rose 18.4% YoY to Rs46.4bn (PLe: Rs43.9bn) driven by strong growth in domestic business. Domestic revenue grew 61.1% YoY to Rs32.6bn. Revenue mix stood at Conductors ~47%/ Specialty Oil ~27%/ Cables ~25%. Domestic/export mix stood at 70/30% (vs 52/48% in Q2FY24). EBITDA rose 2.7% YoY to Rs3.8bn (PLe: Rs3.9bn). EBITDA margin declined by 118bps YoY to 7.7% (PLe: 9.0%) led by gross margin contraction (down 214bps YoY to 19.5%), partly offset by relatively lower other expenses. PAT grew 11.5% YoY to Rs1.9bn (PLe: Rs2.1bn) aided by higher other income (+54.3% YoY to Rs328mn) and a lower effective tax rate.

Broad-based growth across Conductors, Cables & Specialty Oils: Conductors revenue grew 18.3% YoY to Rs23.0bn due to higher realizations while volumes were flat. Domestic sales grew 86% YoY to Rs18.7bn while exports declined 54% YoY to Rs4.3bn owing to increased Chinese competition, slow demand and delays in lifting of materials in certain overseas projects. Specialty Oils revenue grew 12.1% YoY to Rs13.4bn, with volumes up 11.0% YoY led by healthy growth in automotive oils (+21% YoY) and global transformer oils (+25% YoY). Domestic/export mix stood at 55/45% (vs 53/47% in Q2FY24) Cables revenue grew 39.0% YoY to Rs12.3bn driven by strong domestic demand. Domestic sales grew 78% YoY to Rs8.7bn while exports declined 9% YoY to Rs3.6bn.

Exhibit 1: Robust domestic performance led to revenue growth of 18.4% YoY; lower export mix dragged margins

Y/e March (Rs mn)	Q2FY25	Q2FY24	YoY gr.	Q2FY25E	% Var.	Q1FY25	QoQ gr.	H1FY25	H1FY24	YoY gr.
Revenue	46,445	39,223	18.4%	43,858	5.9%	40,105	15.8%	86,550	76,893	12.6%
Gross Profit	9,039	8,475	6.7%	9,517	-5.0%	8,625	4.8%	17,664	16,676	5.9%
Margin (%)	19.5	21.6	(214)	21.7	(223.8)	21.5	(204)	20.4	21.7	(128)
Employee Cost	879	724	21.5%	855	2.8%	822	7.0%	1,700	1,380	23.2%
as % of sales	1.9	1.8	5	2.0	(5.8)	2.0	(16)	2.0	1.8	17
Other expenditure	4,595	4,279	7.4%	4,737	-3.0%	4,038	13.8%	8,633	8,361	3.2%
as % of sales	9.9	10.9	(102)	10.8	(90.7)	10.1	(17)	10.0	10.9	(90)
EBITDA	3,565	3,473	2.7%	3,925	-9.2%	3,766	-5.3%	7,331	6,934	5.7%
Margin (%)	7.7	8.9	(118)	9.0	(127.3)	9.4	(171)	8.5	9.0	(55)
Depreciation	321	282	13.8%	324	-0.9%	311	3.1%	632	554	14.0%
EBIT	3,245	3,191	1.7%	3,602	-9.9%	3,454	-6.1%	6,699	6,380	5.0%
Margin (%)	7.0	8.1	(115)	8.2	(122.6)	8.6	(163)	7.7	8.3	(56)
Other Income	328	213	54.3%	200	63.9%	153	114.2%	481	351	36.9%
Interest	1,006	1,031	-2.4%	1,026	-2.0%	904	11.3%	1,909	1,727	10.6%
PBT (ex. Extra-ordinaries)	2,567	2,373	8.2%	2,775	-7.5%	2,704	-5.1%	5,271	5,004	5.3%
Margin (%)	5.5	6.0	(52)	6.3	(80.1)	6.7	(122)	6.1	6.5	(42)
Extraordinary Items	-	-	-	-	-	-	-	-	-	-
PBT	2,567	2,373	8.2%	2,775	-7.5%	2,704	-5.1%	5,271	5,004	5.3%
Total Tax	629	629	-0.1%	699	-	679	-7.4%	1,307	1,286	1.6%
Effective Tax Rate (%)	24.5	26.5	(202)	25.2	-	25.1	(61)	24.8	25.7	(90)
Reported PAT	1,939	1,744	11.2%	2,076	-6.6%	2,025	-4.3%	3,964	3,718	6.6%
Adj. PAT	1,939	1,739	11.5%	2,076	-6.6%	2,025	-4.3%	3,964	3,713	6.8%
Margin (%)	4.2	4.4	(26)	4.7	(55.9)	5.1	(88)	4.6	4.8	(25)
Adj. EPS	48.3	43.3	11.5%	51.7	-6.6%	50.4	-4.3%	98.7	92.4	6.8%

Source: Company, PL

Exhibit 2: Broad based growth; Conductors volume remained flat while Specialty Oils EBITDA/KL came in strong

Segment Performance	Q2FY25	Q2FY24	YoY gr.	Q2FY25E	% Var.	Q1FY25	QoQ gr.	H1FY25	H1FY24	YoY gr.
Conductors										
Volume (MT)	54,145	54,074	0.1%	57,400	-5.7%	48,619	11.4%	102,764	99,639	3.1%
Revenue (Rs mn)	22,988	19,433	18.3%	22,216	3.5%	19,358	18.8%	42,346	37,175	13.9%
EBITDA Adj (Rs mn)	2,040	2,110	-3.3%	2,181	-6.5%	1,870	9.1%	3,910	3,880	0.8%
EBITDA margin (%)	8.9	10.9	(198)	9.8	(94)	9.7	(79)	9.2	10.4	(120)
EBITDA Adj. (Rs/MT)	37,702	39,007	-3.3%	38,000	-0d.8%	38,532	-2.2%	38,095	38,885	-2.0%
Transformer & Specialty Oils										
Volume (KL)	148,524	133,788	11.0%	141,124	5.2%	138,357	7.3%	286,881	264,442	8.5%
Revenue (Rs mn)	13,393	11,949	12.1%	12,707	5.4%	12,652	5.9%	26,045	23,870	9.1%
EBITDA Adj (Rs mn)	810	610	32.8%	931	-13.0%	960	-15.6%	1,770	1,390	27.3%
EBITDA margin (%)	6.0	5.1	94	7.3	(128)	7.6	(154)	6.8	5.8	97
EBITDA Adj. (Rs/KL)	5,473	4,562	20.0%	6,600	-17.1%	6,935	-21.1%	6,178	5,275	17.1%
Cables										
Revenue (Rs mn)	12,266	8,823	39.0%	10,631	15.4%	10,418	17.7%	22,683	18,490	22.7%
EBITDA Adj (Rs mn)	1,190	980	21.4%	1,116	6.6%	1,070	11.2%	2,260	2,080	8.7%
EBITDA margin (%)	9.7	11.1	(141)	10.5	(80)	10.3	(57)	10.0	11.2	(129)

Source: Company, PL

Exhibit 3: SoTP Valuation – valuing Conductors/Cables/Specialty Oils at 39x/43x/17x on Sep'26E earnings

	Segmental PAT (Rs mn)	Valuation basis	Target multiple (X)	Targeted Value (Rs mn)	Value/Share
Conductors Segment	4,520	P/E	39	176,274	4,388
Cables Segment	4,810	P/E	43	206,810	5,149
Specialty Oil Segment	1,928	P/E	17	32,770	816
Total Target (Rs. Mn)				415,855	10,353

Source: Company, PL

Conference Call Highlights

- **Conductors:** Export mix significantly declined to 18.7% in Q2FY25 vs 48.3% in Q2FY24 primarily affected by increased Chinese competition, lower demand and continued supply chain disruptions. Management continues to guide for Rs28,500 EBITDA/MT.
 - Realizations in the conductor segment were high however volumes remained flat due to lower exports and upscaling from traditional ACSR conductors to AL-59 conductors.
 - H1 saw slower tendering activity in the domestic business, which is expected to pick up pace in H2. Given the current environment of lower exports and transition to AL-59 in India, management expects to remain slightly below previously guided ~10% volume growth in midterm.
 - Domestic demand remains robust with domestic sales growth of 86% YoY in Q2FY25. Under the Make-in-India initiative, MNC's are not allowed to partake in the bidding process which eliminates Chinese competition from the domestic market.
 - Order inflow for the conductor division was Rs22.3bn while its order book stood at Rs66.2bn.
- **Cables:** Domestic cables business continues to outperform driven by strong macro-economic tailwinds while export volumes were lower in USA & Europe. Export mix stood at 29.0% in Q2FY25 vs 44.5% in Q2FY24. Management believes that the exports have bottomed out and sequential growth is expected. Cables division order book stood at Rs17.8bn.
 - Domestic cable margins are lower than exports. Due to lower share of exports to the mix, cables division reported lower margins in Q2FY25.
 - Verticals such as Solar & Wind energy, HVDC and data centers are high growth sectors where company has strong offerings, while orders from Indian railways is driving the domestic cables business.
 - Company runs 100% hedge book against raw materials such as Copper and Aluminium which eliminates any adverse impacts caused due to its price fluctuations.
- **Specialty Oils & Lubricants:** Transformer oil drove growth in this division. Global transformer oil volume was up by 25% YoY driven by robust demand. Domestic and well as export contributed equally to the segment's revenue. Export mix remained healthy at 44.7% in Q2FY25 vs 47.4% in Q2FY24.

- Automotive oil volume had strong growth of 21% YoY driven by better OEM business while Retail business remained relatively flat.
- Absence of domestic manufacturers in countries like Vietnam, Indonesia, Turkey and geographies like Middle East is driving export volumes for the company.
- APAR has major advantage over its competitors in HVDC space given the higher oxidation stability and insulating characteristics required for DC transformer oils, which APAR supplies, over AC transformer oils.
- APAR has launched high performance synthetic transformer oils which has better biodegradability, better cooling and insulation characteristics. It is significantly more expensive (~4x of mineral oil) and is applicable in special needs and applications such as traction transformers in railways, offshore solar and wind farms.
- **Severe Chinese competition** across the globe has negatively impacted company's export volumes. It is expected to remain severe outside of India and USA. Chinese players are not able to easily participate in USA and India due to its sanctions or import barriers however, chinese players have equal or better penetration in other regions such as Australia, Africa & LatAm. APAR does not intent to lower its prices to gain export volumes.
- **USA business expected to grow sequentially.** APAR is seeing improved ordering activity in the USA and expects it to improve sequentially over H2FY25. It is seeing stronger demand for Cables in the USA driven by energy extraction projects. APAR is adding more infrastructure and man power to service anticipated demand growth. A good portion of the USA conductor market is already operating on the higher efficiency conductors which may lead to slower recoductoring demand.

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	161,530	193,416	226,454	264,453
YoY gr. (%)	12.7	19.7	17.1	16.8
Cost of Goods Sold	125,400	150,654	173,218	201,490
Gross Profit	36,130	42,762	53,237	62,963
Margin (%)	22.4	22.1	23.5	23.8
Employee Cost	2,889	3,462	3,963	4,575
Other Expenses	18,019	23,210	29,892	35,833
EBITDA	15,223	16,090	19,382	22,554
YoY gr. (%)	24.1	5.7	20.5	16.4
Margin (%)	9.4	8.3	8.6	8.5
Depreciation and Amortization	1,157	1,309	1,488	1,686
EBIT	14,066	14,781	17,893	20,868
Margin (%)	8.7	7.6	7.9	7.9
Net Interest	3,866	4,330	4,641	5,235
Other Income	864	909	996	1,111
Profit Before Tax	11,065	11,360	14,248	16,744
Margin (%)	6.8	5.9	6.3	6.3
Total Tax	2,807	2,863	3,591	4,219
Effective tax rate (%)	25.4	25.2	25.2	25.2
Profit after tax	8,257	8,497	10,658	12,525
Minority interest	-	-	-	-
Share Profit from Associate	(6)	-	-	-
Adjusted PAT	8,251	8,497	10,658	12,525
YoY gr. (%)	29.4	3.0	25.4	17.5
Margin (%)	5.1	4.4	4.7	4.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,251	8,497	10,658	12,525
YoY gr. (%)	29.4	3.0	25.4	17.5
Margin (%)	5.1	4.4	4.7	4.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,251	8,497	10,658	12,525
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	205.4	211.5	265.3	311.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	18,310	21,310	24,310	27,310
Tangibles	18,281	21,281	24,281	27,281
Intangibles	28	28	28	28
Acc: Dep / Amortization	6,364	7,673	9,161	10,847
Tangibles	6,364	7,673	9,161	10,847
Intangibles	-	-	-	-
Net fixed assets	11,946	13,637	15,148	16,462
Tangibles	11,917	13,609	15,120	16,434
Intangibles	28	28	28	28
Capital Work In Progress	1,207	1,207	1,207	1,207
Goodwill	-	-	-	-
Non-Current Investments	97	74	74	74
Net Deferred tax assets	(9)	(9)	(9)	(9)
Other Non-Current Assets	1,155	1,354	1,585	1,587
Current Assets				
Investments	34	34	34	34
Inventories	28,645	32,854	38,466	44,921
Trade receivables	39,404	47,162	54,597	63,758
Cash & Bank Balance	6,460	6,711	7,722	10,172
Other Current Assets	6,441	7,737	8,605	9,520
Total Assets	96,158	111,833	128,684	149,057
Equity				
Equity Share Capital	402	402	402	402
Other Equity	38,363	44,311	51,771	60,538
Total Networth	38,764	44,712	52,173	60,940
Non-Current Liabilities				
Long Term borrowings	3,946	3,846	3,696	3,446
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	810	810	810	810
Trade payables	48,131	57,230	66,385	77,524
Other current liabilities	4,498	5,226	5,612	6,328
Total Equity & Liabilities	96,158	111,833	128,684	149,057

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	11,065	11,360	14,248	16,744
Add. Depreciation	1,157	1,309	1,488	1,686
Add. Interest	2,749	4,330	4,641	5,235
Less Financial Other Income	864	909	996	1,111
Add. Other	588	-	-	-
Op. profit before WC changes	15,558	16,999	20,378	23,665
Net Changes-WC	(15,917)	(3,906)	(4,788)	(4,753)
Direct tax	2,474	2,863	3,591	4,219
Net cash from Op. activities	(2,833)	10,230	12,000	14,692
Capital expenditures	(3,296)	(3,000)	(3,000)	(3,000)
Interest / Dividend Income	110	-	-	-
Others	505	-	-	-
Net Cash from Invst. activities	(2,681)	(3,000)	(3,000)	(3,000)
Issue of share cap. / premium	9,826	-	-	-
Debt changes	901	(100)	(150)	(250)
Dividend paid	(1,530)	(2,549)	(3,197)	(3,757)
Interest paid	(2,845)	(4,330)	(4,641)	(5,235)
Others	-	-	-	-
Net cash from Fin. activities	6,352	(6,979)	(7,989)	(9,242)
Net change in cash	837	251	1,011	2,450
Free Cash Flow	(6,140)	7,230	9,000	11,692

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	205.4	211.5	265.3	311.8
CEPS	234.2	244.1	302.4	353.8
BVPS	965.0	1,113.1	1,298.9	1,517.1
FCF	(152.8)	180.0	224.0	291.1
DPS	40.0	63.5	79.6	93.5
Return Ratio(%)				
RoCE	40.4	31.8	33.7	34.2
ROIC	37.1	27.8	29.6	30.8
RoE	27.0	20.4	22.0	22.1
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.1)
Net Working Capital (Days)	45	43	43	43
Valuation(x)				
PER	45.9	44.6	35.5	30.2
P/B	9.8	8.5	7.3	6.2
P/CEPS	40.3	38.6	31.2	26.7
EV/EBITDA	24.8	23.4	19.4	16.5
EV/Sales	2.3	1.9	1.7	1.4
Dividend Yield (%)	0.4	0.7	0.8	1.0

Source: Company Data, PL Research

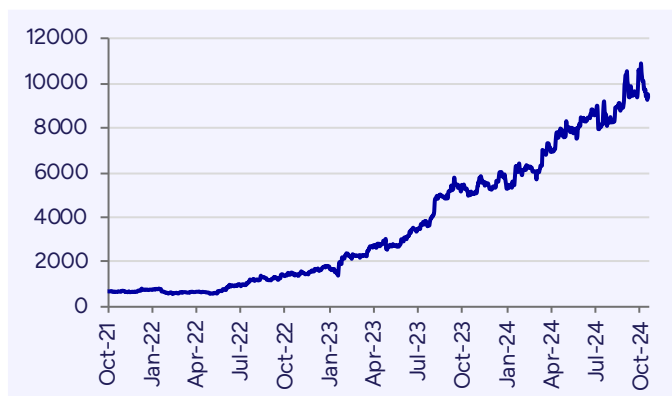
Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	40,085	44,551	40,105	46,445
YoY gr. (%)	1.8	9.0	6.5	18.4
Raw Material Expenses	30,777	34,405	31,480	37,406
Gross Profit	9,309	10,146	8,625	9,039
Margin (%)	23.2	22.8	21.5	19.5
EBITDA	4,050	4,267	3,766	3,565
YoY gr. (%)	18.0	0.7	8.8	2.7
Margin (%)	10.1	9.6	9.4	7.7
Depreciation / Depletion	288	315	311	321
EBIT	3,762	3,952	3,454	3,245
Margin (%)	9.4	8.9	8.6	7.0
Net Interest	1,128	1,011	904	1,006
Other Income	210	275	153	328
Profit before Tax	2,844	3,216	2,704	2,567
Margin (%)	7.1	7.2	6.7	5.5
Total Tax	667	854	679	629
Effective tax rate (%)	23.5	26.6	25.1	24.5
Profit after Tax	2,177	2,362	2,025	1,938
Minority interest	-	-	-	-
Share Profit from Associates	(1)	-	-	-
Adjusted PAT	2,176	2,362	2,025	1,939
YoY gr. (%)	28.1	(2.7)	2.6	11.5
Margin (%)	5.4	5.3	5.1	4.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,176	2,362	2,025	1,939
YoY gr. (%)	28.1	(2.7)	2.6	11.5
Margin (%)	5.4	5.3	5.1	4.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,176	2,362	2,025	1,939
Avg. Shares O/s (m)	40	40	40	40
EPS (Rs)	54.2	58.8	50.4	48.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	BUY	10,399	9,514
2	29-Aug-24	BUY	10,399	9,010
3	31-Jul-24	Accumulate	10,399	9,110
4	08-Jul-24	Accumulate	8,872	8,862
5	15-May-24	Accumulate	8,877	8,340
6	12-Apr-24	Accumulate	6,564	7,153
7	31-Jan-24	Accumulate	6,890	6,069
8	09-Jan-24	Accumulate	5,776	5,950

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,833	7,930
2	Apar Industries	BUY	10,399	9,514
3	BEML	Accumulate	4,484	3,664
4	Bharat Electronics	BUY	341	270
5	BHEL	Accumulate	260	230
6	Carborundum Universal	Hold	1,650	1,469
7	Cummins India	Accumulate	4,081	3,624
8	Engineers India	BUY	250	188
9	GE T&D India	Hold	1,601	1,661
10	Grindwell Norton	Accumulate	2,749	2,441
11	Harsha Engineers International	Hold	566	502
12	Hindustan Aeronautics	Hold	4,515	4,257
13	Kalpataru Projects International	Accumulate	1,413	1,348
14	KEC International	Hold	880	1,032
15	Larsen & Toubro	BUY	4,130	3,494
16	Praj Industries	BUY	804	700
17	Siemens	Accumulate	7,374	7,247
18	Thermax	Reduce	4,186	5,193
19	Triveni Turbine	BUY	719	671
20	Voltamp Transformers	BUY	14,326	10,516

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

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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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