

The Supreme Industries Ltd

No. of shares (m)	127.0
Mkt cap (Rs crs/\$m)	14236/2219.2
Current price (Rs/\$)	1121/17.5
Price target (Rs/\$)	1289/20.1
52 W H/L (Rs.)	1250/780
Book Value (Rs/\$)	125/2.0
Beta	0.6
Daily volume NSE (avg. monthly)	76630
P/BV (FY18e/19e)	7.9/6.6
EV/EBITDA (FY18e/19e)	17.6/15.3
P/E (FY18e/19e)	32.6/27.0
EPS growth (FY17/18e/19e)	11.8/1.6/21.1
OPM (FY17/18e/19e)	17.1/16.6/16.9
ROE (FY17/18e/19e)	30.4/26.4/26.7
ROCE(FY17/18e/19e)	22.6/22.7/24.0
D/E ratio (FY17/18e/19e)	0.2/0.1/0.0
BSE Code	509930
NSE Code	SUPREMEIND
Bloomberg	SI IN
Reuters	SUPI.BO

Shareholding pattern

	%
Promoters	49.7
MFs / Banks / FIs/Others	18.5
FPIs	10.2
Govt. Holding	0.0
Public & Others	21.6
Total	100.0

As on Jun 30, 2017

Recommendation

ACCUMULATE

Analyst

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Quarterly Highlights

- Affected by destocking by distributors of plastic piping, furniture and cross laminated films ahead of GST implementation, Supreme's post tax earnings slid 26.3% to Rs 75.29 crs (\$11.7m) in Q1 compared to Rs 102.15 crs (\$15.3m) in the same quarter a year ago. Intensity of demand deferment manifested itself in overall sales volumes, which tumbled 5% to 92916 mt, the lowest June quarter reading since 2014. Both plastic piping system and consumer products bore the brunt of 'one tax' regime for their volumes shriveled by 7% and 8% respectively. Yet largely organized industrial products business stayed resilient for it posted 6% growth in dispatches.
- Seemingly one off items - inventory loss on PVC; lower share of value added products (32% in Q1Vs 35% in Q1 a year ago) - smeared margin profile. Operating margins in the normally highest yielding quarter (June quarter margins are mostly highest in a year) nosedived 430 bps to 13.7%, sparking a 21.5% fall in operating profit. All but industrial products business observed margin fall of at least 300 bps (rounded off) with the packaging business topping at 400 bps.
- Lower GST rate on cross laminated films would not only help it imitate buoyancy in its export markets but chip away unorganized markets' dominance. Capacity of supply stressed performance films is being ramped up by 4000 mt which would be operational by August of next year. Inventory loss of polystyrene in Q1 triggered a blood-curdling decline in post tax earnings (Rs 10.30 crs/\$1.6m compared to Rs 45.61 crs/\$6.8m) of Supreme Petrochem; OPMs tumbled to a distressing 2.6% from 10.5% in the year ago period.
- The stock currently trades at 32.6x FY18e EPS of Rs 34.33 and 27x FY19e EPS of Rs 41.56. Strained Q1 outcome would restrict a perceptible rebound (1.5% earnings growth projected for current fiscal) in earnings for current fiscal. Yet tangible gains of GOI's ambitious housing for all program coupled with entrenched recovery in its generally somber industrial products business do not have little growth enriching potential, steadying return on capital thus. Its large operating cash flows would be ploughed back in capital assets and retiring debt. On balance, we maintain our 'accumulate' rating on the stock with revised target of Rs 1289 (previous target: Rs 1004) based on 31x FY19e earnings (peg: 1.5 on FY19 earnings; three year average TTM P/E: 30x) over a period of 6-9 months.

(Figures in Rs crs)	FY15	FY16*	FY17	FY18e	FY19e
Income from operations	4255.18	2960.06	4462.26	4929.24	5575.19
Other Income	4.66	5.13	8.86	3.38	3.45
EBITDA (other income included)	670.89	458.43	770.73	821.80	945.50
Profit after EO & associate profit	320.75	225.65	428.66	436.09	527.97
EPS (Rs)	25.25	17.77	33.75	34.33	41.56
EPS growth (%)	14.0	38.8	11.6	1.7	21.1

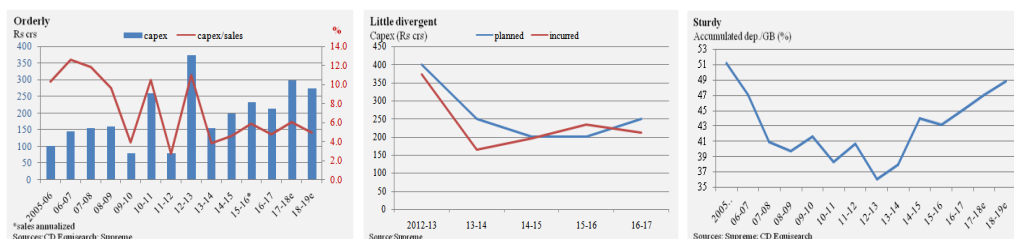
* nine months ended Mar 31, 2016 due to change in accounting year

Outlook & Recommendation

Capex

Barring minor setbacks in execution of capital investments - most pertinently in 2013-14 when Supreme cut its planned capex by nearly a third citing subdued business growth - Supreme has more or less toed the line in sums spent. After commissioning the commercial production of PVC, CPVC and HDPE pipes at its new plant in Kharagpur, work is in progress to install new capacities of PVC (expected to start by November) and HDPE pipes (whose dispatches soared 12% last fiscal beating hands down overall plastic piping system division volume growth of a mere 2%).

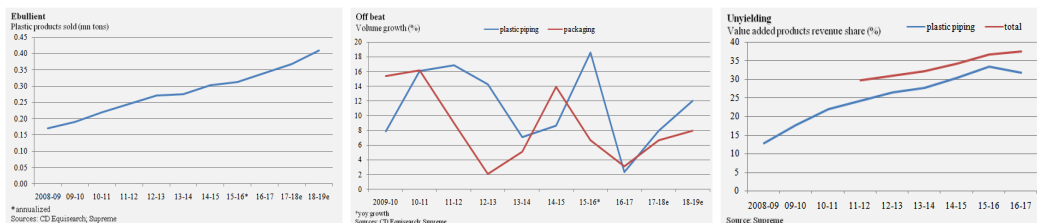
For the current fiscal, capex is earmarked at a five year high of Rs 300-350 crs presumably due to sizeable investments in greenfield plastic product complexes in Southern and North East regions - the first such complex since the commencement of Kharagpur complex in 2015-16; 40 acres land already allotted for the complex in Telengana and it is scouting for a industrial land in Assam for the North East complex. Other investments planned during the year include industrial components plant in Rajasthan, new capacities of protective packaging - at Malanpur, Hosur and Kharagpur -and performance packaging, launch of new range of roto moulded products, investments in new moulds of bath fitting products, increase capacity of composite LPG cylinders and enlarge range of furniture/blow moulded furniture products.



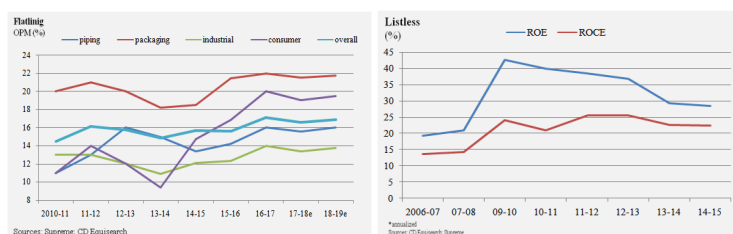
Financials & Valuation

Demand for Supreme's plastic piping products would get a fillip from GOI's ambitious housing for all scheme under the aegis of Pradhan Mantri Awas Yojana (PMAY), which proposes to build 60m houses (20m urban, 40m rural) during 2015-22. Industry reports suggest that stable property prices during last few years, decline in housing loan rate by 150 bps during the last couple of years and fiscal incentives for affordable housing would all galvanize the Indian housing market over the next few years. Awarding 'infrastructure status' to affordable housing (in Union Budget 2017) would enable property developers' cheaper finance access. Also applicability of 'carpet area' instead of 'built up area' for affordable housing would help broaden the scheme's reach.

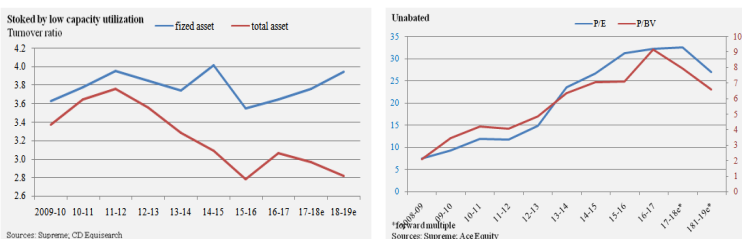
GOI plans to eliminate open defecation by constructing individual, cluster and community toilets through its Swachh Bharat Mission (SBM). Involving a total outlay of Rs 1.96 lakh crores - to be shared by Centre, states and private sector - the scheme proposes to build 12m rural toilets by 2019, which doubtlessly would boost demand for plastic pipes. Sensing unprecedented opportunity in both agri and non agri pipes, Supreme has been bolstering its highest revenue generating plastic piping business through stronger distribution network, higher ad spends (total ad spend across businesses rose by 80.5% last fiscal; projected 30-40% more in FY18), increased share of value added products and frisker new product roll outs - added over 1100 new products in last three years. Some newly unveiled products include double wall corrugated HDPE pipes, vertical and modular underground storage tanks, up to 10 inches dia CPVC pipes and plastic industrial valves.



Vanquishing adverse impact of higher GST on plastic furniture in states, the company plans to strenuously promote the newly launched blow furniture by rolling out new models over the course of the year, thus supporting 8.7% annual volume growth over the next two years. Wretched by insufficient capacity, performance films business overcame miserable volume growth (2%) last fiscal through increased sale of value added products. Fortified by robust show of both industrial components (13% volume growth) and material handling products (7% volume rise) last fiscal, Supreme's industrial products business reported not only the highest volume growth in a couple of years but highest OPM in at least seven years. Fomented by increased capacity of roto moulded products, the company expects higher throughput from its various plants.



The stock currently trades at 32.7x FY18e EPS of Rs 34.29 and 27x FY19Ee EPS of Rs 41.58. Besieged by demonetization, Supreme's plastic piping business volumes slid 4.8% in H2 of last fiscal after growing 11% in the first half; ditto for consumer products business: -3.6% Vs 14%. Wherefore, business growth withered. Susceptibility of its plastic piping systems to vagaries of monsoon - as observed in 2013-14 and 2014-15 - cannot be briskly gainsaid. Yet GOI's ambitious housing program coupled with unorganized market disrupting GST implementation would patently expand the unorganized market, prominently in furniture, cross laminated films and plastic piping systems. Earnings would vigorously revive next fiscal (+21.3% projected) after flat lining. On balance, we maintain our 'accumulate' rating on the stock with revised target of Rs 1289 (previous target: Rs 1004) based on 31x FY19e earnings (peg: 1.5 on FY19 earnings; three year average TTM P/E: 30x) over a period of 6-9 months. For more info, refer to our January report.



Cross Sectional Analysis

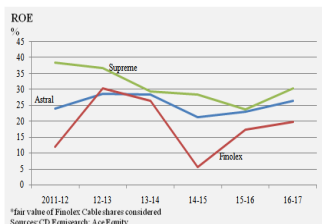
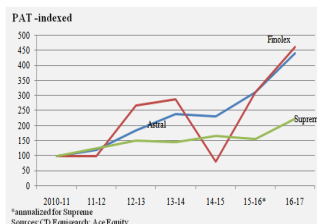
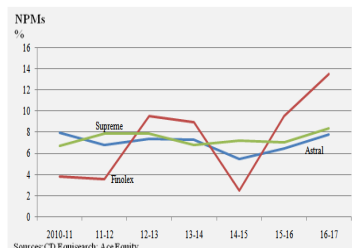
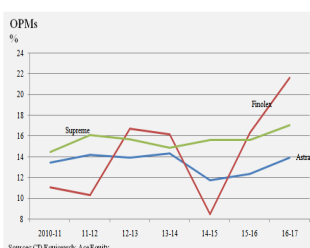
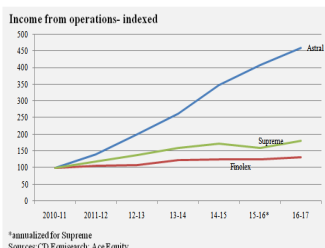
Company	Equity*	CMP	Mcap*	Sales*	Profit*	OPM (%)	NPM (%)	Int. Cov.	ROE (%)	DER	Mcap / sales	P/BV	P/E
Astral Poly	12	630	7541	1889	145	14.0	7.8	12.1	26.4	0.4	4.0	12.4	51.9
Finolex Ind.	124	610	7566	2602	355	21.6	13.3	34.6	19.8	0.0	2.9	3.5	21.3
Supreme Inds	25.4	1121	14236	4435	391	16.2	7.8	20.5	25.9	0.2	3.2	8.9	36.4

*figures in crores; calculations on ttm basis

Book value adjusted for goodwill and revaluation reserves where applicable

Beating odds of demonetization which temporarily lashed out purchasing power of Indian consumer in second half of last fiscal, Astral's most entrenched piping business bucked the trend to report awe-inspiring 15% volume growth last fiscal, partly triggering a 140 bps expansion in OPMs (standalone). Other margin buttressing measures include efficient PVC procurement, launch of high value added products, logistic cost saving due to ramp up of production at its Southern plant and increased backward integration. To optimize logistics costs further, capacity of its Southern facility at Hosur is planned to be doubled - some capacity expansion still undergoing for completion in FY18, besides construction of Rajasthan (Ghiloth) which would ensure efficient product distribution in North and North East regions. Its backward integration of CPVC compounding is aimed at reducing dependence on external suppliers.

Trampled by demonetization, Finolex Industries displayed 5.5% drop in dispatches in its pipe & fittings in Q4, precipitating a subdued growth (0.3%; the lowest in at least five years) last fiscal. External sales of PVC resins in FY17 fell by a displeasing 18.3% to 87236 mt from 106771 mt in the same period a year ago. To augment margins, it plans to launch more value added products and scale up the revenue share (7.3% volume share of total PVC pipe & fittings in FY17) of fittings. Plans to boost its non-agri revenue share to 50% (30% now) over the course of next five years is a direct corollary of its recent tie up with Lubrizol to manufacture and sell FlowGuard® branded CPVC pipes and fittings in India, catering to housing and real-estate segments.



Financials

Quarterly Results

Figures in Rs crs

	Q1FY17	Q1FY16	% chg.	FY17	FY16*
Income from operations	1161.66	1189.34	-2.3	4462.26	2960.06
Other Income	0.43	0.60	-28.5	8.86	5.13
Total Income	1162.09	1189.94	-2.3	4471.12	2965.19
Total Expenditure	1003.01	987.32	1.6	3700.39	2506.77
EBIDTA (other income incl.)	159.08	202.62	-21.5	770.73	458.43
Interest	3.32	9.72	-65.8	33.99	31.87
Depreciation	40.59	37.04	9.6	154.29	104.57
PBT	115.17	155.85	-26.1	582.45	321.98
Tax	39.88	53.71	-25.7	205.78	117.64
Net Profit	75.29	102.14	-26.3	376.67	204.34
P/L of associate	3.09	13.68	-77.4	53.73	17.04
Net Profit after MI & P/L associate	78.38	115.82	-32.3	430.39	221.38
Extraordinary Item	-	-	-	1.74	-4.28
Adjusted Net Profit	78.38	115.82	-32.3	428.66	225.65
EPS	6.17	9.12	-32.3	33.75	17.77

Segment results

Figures in Rs crs

	Q4FY17	Q4FY16	% chg.	FY17	FY16*
Segment revenue					
Plastic piping products	744.23	772.12	-3.6%	2764.80	1808.21
Packaging products	265.40	280.48	-5.4%	1094.97	751.35
Industrial products	188.65	172.80	9.2%	707.81	472.16
Consumer products	91.42	92.46	-1.1%	355.71	243.94
Others	11.14	16.97	-34.3%	76.17	52.10
Gross income from ops.	1300.84	1334.82	-2.5%	4999.46	3327.76
Excise duty	139.18	145.48	-4.3%	537.19	367.70
Net income from ops.	1161.66	1189.34	-2.3%	4462.26	2960.06
Segment EBIT					
Plastic piping products	65.14	93.69	-30.5%	336.56	186.57
Packaging products	36.07	52.58	-31.4%	181.62	125.42
Industrial products	10.92	10.81	1.0%	55.78	26.30
Consumer products	9.48	13.39	-29.2%	53.14	27.16
Others	-3.18	-2.37	34.4%	-8.58	-9.71
Total	118.43	168.11	-29.6%	618.52	355.73
Interest	3.32	9.72	-65.8%	30.26	28.88
Other unallocable exp.	-0.06	2.52	-102.4%	5.81	4.87
PBT	115.17	155.85	-26.1%	582.45	321.98

* nine months ended Mar 31, 2016 due to change in accounting year

Consolidated Income Statement

Figures in Rs crs

	FY15	FY16*	FY17	FY18e	FY19e
Income from operations	4255.18	2960.06	4462.26	4929.24	5575.19
<i>Growth (%)</i>	7.4	-0.6	5.2	10.5	13.1
Other Income	4.66	5.13	8.86	3.38	3.45
Total Income	4259.84	2965.19	4471.12	4932.62	5578.64
Total Expenditure	3588.95	2506.77	3700.39	4110.82	4633.13
EBIDTA (other income incl.)	670.89	458.43	770.73	821.80	945.50
Interest	60.19	31.87	33.99	18.42	8.33
EBDT	610.70	426.56	736.74	803.38	937.17
Depreciation	138.96	104.57	154.29	173.05	193.44
Tax	160.04	117.64	205.78	218.09	257.33
Net Profit	311.71	204.35	376.68	412.24	486.40
P/L of associate	10.65	17.04	53.73	23.85	41.57
Profit after MI & associate profit	322.36	221.38	430.39	436.09	527.97
Extraordinary Item	1.60	-4.28	1.74	-	-
Adjusted Net Profit	320.75	225.65	428.66	436.09	527.97
EPS (Rs)	25.25	17.77#	33.75	34.33	41.56

* nine months ended Mar 31, 2016 due to change in accounting year
not annualized

Consolidated Balance Sheet

Figures in Rs crs

	FY15	FY16*	FY17	FY18e	FY19e
SOURCES OF FUNDS					
Share Capital	25.41	25.41	25.41	25.41	25.41
Reserves	1294.88	1290.32	1670.32	1877.07	2252.15
Total Shareholders Funds	1320.29	1315.72	1695.72	1902.47	2277.55
Long term debt	232.16	64.14	16.62	1.23	1.23
Total Liabilities	1552.45	1379.86	1712.34	1903.70	2278.78
APPLICATION OF FUNDS					
Gross Block	1844.54	2085.72	2298.30	2568.30	2868.30
Less: Accumulated Depreciation	812.04	901.07	1035.00	1208.05	1401.49
Net Block	1032.50	1184.66	1263.30	1360.25	1466.81
Capital Work in Progress	101.77	68.21	45.90	75.00	50.00
Investments	120.70	126.17	174.64	188.35	224.13
Current Assets, Loans & Advances					
Inventory	462.70	557.85	776.85	854.54	957.08
Sundry Debtors	237.97	236.22	275.33	302.86	324.06
Cash and Bank	181.84	28.87	79.83	9.83	76.67
Loans and Advances	133.49	153.62	146.70	155.64	168.80
Total CA & LA	1015.99	976.57	1278.71	1322.87	1526.60
Current Liabilities	701.68	923.65	970.56	956.82	889.11
Provisions	2.70	3.49	4.04	4.24	4.45
Total Current Liabilities	704.38	927.14	974.60	961.07	893.56
Net Current Assets	311.60	49.42	304.11	361.80	633.04
Net Deferred Tax	-90.58	-105.48	-116.26	-125.31	-137.45
Other Assets (Net Of Liabilities)	76.45	56.90	40.65	43.61	42.25
Total Assets	1552.45	1379.86	1712.34	1903.70	2278.78

* nine months ended Mar 31, 2016 due to change in accounting year

Cash Flow Statement

Figures in Rs crs

	FY16*	FY17	FY18e	FY19e
Net Income (a)	204.35	376.68	412.24	486.40
Non cash exp. & others (b)	119.98	153.32	179.17	202.57
Depreciation	104.57	154.29	173.05	193.44
Deferred tax	14.89	10.78	9.05	12.13
Interest received	-2.99	-3.28	-2.87	-2.94
Profit on sale of investments	-2.14	-1.54	-	-
Profit on sale of assets	1.19	-1.15	-	-
Others	4.46	-5.78	-0.06	-0.06
(Increase) / decrease in NWC & others (c)	-59.80	-96.42	-13.86	-57.65
Change in inventory	-95.15	-219.00	-77.69	-102.54
Change in trade receivables	1.75	-39.11	-27.53	-21.20
Trade payables	44.91	113.19	67.99	52.12
Other assets (net of liabilities)	-11.31	48.50	23.37	13.97
Operating cash flow (a+b+c)	264.52	433.57	577.55	631.32
Purchase of fixed assets	-233.15	-212.73	-299.10	-275.00
sale of fixed assets	1.28	2.89	0.18	0.00
Sale of investments	2.14	1.54	-	-
Interest received	2.99	3.16	2.87	2.94
Dividend received from associate	8.68	2.89	10.13	5.79
Rent recd	0.00	0.06	0.06	0.06
Investing cash flow (d)	-218.06	-202.19	-285.86	-266.21
Net borrowings	20.02	-133.11	-132.36	-145.39
Dividends paid (including CDT)	-221.68	-45.87	-229.33	-152.89
Financing cash flow (e)	-201.66	-178.98	-361.70	-298.28
Net change (a+b+c+d+e)	-155.20	52.41	-70.01	66.83

* nine months ended Mar 31, 2016 due to change in accounting year

Key Financial Ratios

	FY16	FY17	FY18e	FY19e
Growth Ratios (%)				
Revenue	-0.6	5.2	10.5	13.1
EBIDTA (other income included)	13.5	6.8	7.0	15.1
Net Profit	38.8	11.6	1.7	21.1
EPS	38.8	11.6	1.7	21.1
Margins (%)				
Operating Profit Margin	15.6	17.1	16.6	16.9
Gross Profit Margin	14.6	16.5	16.3	16.8
Net Profit Margin	7.0	8.4	8.4	8.7
Return (%)				
ROCE	18.3	22.6	22.7	24.0
ROE	23.7	30.3	26.4	26.7
Valuations				
Market Cap / Sales	2.4	3.1	2.9	2.6
EV/EBIDTA	15.8	18.3	17.6	15.3
P/E	31.2	32.3	32.6	27.0
P/BV	7.1	9.2	7.9	6.6
Other Ratios				
Interest Coverage	11.3	18.1	35.2	90.3
Debt-Equity Ratio	0.3	0.2	0.1	0.0
Current Ratio	1.1	1.1	1.2	1.5
Turnover Ratios				
Fixed Asset Turnover	3.6	3.6	3.8	3.9
Total Asset Turnover	2.8	3.1	3.0	2.8
Debtors Turnover	16.6	17.4	17.1	17.8
Inventory Turnover	6.5	5.5	5.0	5.1
Creditors Turnover	10.3	9.3	8.4	8.5
WC Ratios				
Debtor days	22.0	20.9	21.4	20.5
Inventory days	56.1	65.8	72.4	71.4
Creditor days	35.4	39.3	43.3	43.1
Cash conversion cycle	42.6	47.4	50.6	48.8
Cash Flows (Rs crs)				
Operating cash flow	264.5	433.6	577.5	631.3
FCFE	66.5	98.3	159.3	219.7
FCFF	66.7	253.4	303.7	370.6

Revenue/ EBITDA/ PAT growth ratios for FY16 and FY17 calculated using data for comparable period; valuation ratios for FY16 on annualized data

Cumulative Financial Data

Rs crs	FY08-10	FY11-13	FY14-16	FY17-19e
Polymers processed (mt)	503689	751825	832319	1183088
Income from operations	4989	8801	11177	14967
Operating profit	688	1365	1717	2522
EBIT	552	1156	1380	2015
PBT	421	999	1209	1954
PAT after MI	294	723	828	1393
Dividends	115	263	371	550
OPM (%)	13.8	15.5	15.4	16.9
NPM (%)	5.6	7.6	7.1	8.5
Interest coverage	4.2	7.4	8.1	33.2
ROE (%)	29.8	37.3	27.4	26.7
ROCE (%)	19.1	23.9	23.4	22.5
Fixed asset turnover	3.6	3.7	3.7	3.8
Debtors turnover	13.0	17.6	18.4	17.8
Inventory turnover	7.2	6.5	6.7	5.5
Creditors turnover	9.0	10.4	9.9	9.0
Debtors days	28.1	20.8	19.8	20.5
Inventory days	51.0	55.8	54.5	66.7
Creditor days	40.4	35.1	36.9	40.4
Cash conversion cycle	38.7	41.5	37.5	46.8
Dividend payout ratio (%)	40.4	39.3	46.9	43.2

FY08-10 implies three years ending fiscal 10; FY16 figures annualized for ratio calculation

Supreme's polymer processing pace which slithered somewhat in FY14-16 period (+21.4% compared to 49.3% in the previous three year period) is expected to gain ground (+29.7% estimated) in FY17-19 period, backed by its most illustrious plastic piping business , which would more or less would retained its volume share at two-thirds. Not least due to increasing share of value added products - from 29.8% of total turnover in FY12 to 37.5% in FY17 - OPMs have strikingly expanded (see table). Stunning gains were observed in both plastic piping and moulded furniture segments whose value added products revenue share (of that segment) has jumped markedly over the years - 31.74% in FY17 from 23.16% in FY12 for plastic piping business; 52.1% for moulded furniture from 36.3%.

All thanks to its philosophy of creating supply ahead of demand - either by laying down greenfield projects or by tweaking existing capacities - fixed asset turnover has all but steadied over the years (see chart); its most businesses currently operate at 60-70% (average) utilization with the ravishing plastic piping business operated at 60%; in FY17; consumer products at 71%,. Sub- optimal capacity utilization did impact return on capital for ROE has tumbled from 37.3% in FY11-13 period TO 27.4% in FY14-16 period. Deleveraging over the years (debt has nearly halved in last six years) has reduced the debt-equity to 0.9 in FY10 to 0.2 last fiscal, thus propelling the interest coverage ratio (see table).

Financial Summary – US dollar denominated

million \$	FY15	FY16*	FY17	FY18e	FY19e
Equity capital	4.1	3.8	3.9	4.0	4.0
Shareholders funds	193.9	198.4	233.2	279.9	336.0
Total debt	62.6	62.1	43.0	22.9	0.2
Net fixed assets (incl CWIP)	181.2	188.9	201.9	223.7	236.5
Investments	19.3	19.0	26.9	29.4	34.9
Net current assets	32.7	7.5	18.6	39.7	79.6
Total assets	231.0	208.0	235.8	280.1	336.2
Revenues	695.9	452.2	665.1	768.4	869.1
EBITDA	109.3	71.1	114.5	128.1	147.4
EBDT	99.5	66.2	109.4	125.2	146.1
PBT	76.8	50.2	86.4	98.3	115.9
Profit after MI & associate profit	52.5	34.5	63.9	68.0	82.3
EPS(\$)	0.41	0.27	0.50	0.54	0.65
Book value (\$)	1.53	1.56	1.84	2.2	2.6
Operating cash flow		39.9	66.9	90.0	98.4
Investing cash flow		-32.9	-31.2	-44.6	-41.5
Financing cash flow		-30.4	-27.6	-56.4	-46.5

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (\$64.15/\$)

* nine months ended Mar 31, 2016 due to change in accounting year

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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/\$	FY14	FY15	FY16	FY17
Average	60.5	61.15	65.46	67.09
Year end	60.1	62.59	66.33	64.84

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.