

## Vinati Organics Ltd.

No. of shares (m)	51.4
Mkt cap (Rs crs/\$m)	11485/1621.3
Current price (Rs/\$)	2235/31.6
Price target (Rs/\$)	2523/35.6
52 W H/L (Rs.)	2393/1056
Book Value (Rs/\$)	212/3.0
Beta	0.7
Daily NSE volume (avg. monthly)	49800
P/BV (FY20e/21e)	8.7/6.8
EV/EBITDA (FY20e/21e)	22.2/18.9
P/E (FY20e/21e)	32.0/27.5
EPS growth (FY19/FY20e/21e)	96.8/26.9/16.7
OPM (FY19/FY20e/21e)	36.4/34.9/33.3
ROE (FY19/FY20e/21e)	31.8/30.8/27.9
ROCE(FY19/FY20e/21e)	31.5/30.8/27.9
D/E ratio (FY19/FY20e/21e)	0.0/0.0/0.0
BSE Code	524200
NSE Code	VINATIORGA
Bloomberg	VO IN
Reuters	VNTI.BO

## Shareholding pattern %

Promoters	74.0
MFs / Banks / FIs	6.2
Foreign Portfolio Investors	4.1
Govt. Holding	0
Total Public	15.7
<b>Total</b>	<b>100.0</b>

As on June 30, 2019.

## Recommendation

### ACCUMULATE

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## Company Brief

VOL manufactures niche specialty chemicals with an integrated business model and offers the highest purity levels globally.

## Quarterly Highlights

- VOL registered a modest 12% revenue growth in the first quarter this fiscal on the back of growth in ATBS. Revenues are expected to remain on a similar trajectory in Q2 and Q3 this year due to a delay in ATBS capacity expansion and the butyl phenol project which were both expected to be completed by September 2019 but are now expected to be complete by November 2019. Lower IBB offtake by a few key customers in China in Q2 and Q3 this fiscal is expected to contribute to this modest revenue.
- VOL is now the world's largest producer of ATBS with production capacity at 26000 TPA. In anticipation of the accelerating demand for ATBS, VOL decided to increase its existing ATBS capacity to 40000 TPA by September 2019, however, due to delays it is expected to be completed by November. The rising demand for ATBS and withdrawal of Lubrizol from the ATBS market has advanced VOL's global market share in ATBS to around 65% currently.
- Operating margin expanded by 794 bps to 41.33% in Q1FY20 from 33.39% in the same period last year mainly on account of low raw material prices (down by 6% y-o-y) and better operational efficiency. VOL charges a fixed margin from its clients which help it to methodically transfer the higher costs of fluctuating raw materials to customers during volatile crude oil price scenarios.
- Despite other income falling by almost Rs. 6 crores, in Q1FY20, PBT showed no small gain of over Rs. 27 crores y-o-y (a rise of over 28%) and post-tax earnings by a similar 28% on not unexpected revenue growth of 11.9% in the same period. Despite a temporary slowdown in offtake of IBB, planned capex for IBB has been completed in FY19.
- The stock currently trades at 32.0x FY20e EPS of Rs 69.76 and 27.5x FY21e EPS of Rs 81.39. The company faces huge product concentration risk (more than 75% of revenues come from sales of ATBS and IBB). In an attempt to overcome this challenge, the company is coming up with a series of new products to widen its product portfolio and ensure sustainable future growth. Buttressed by a pipeline of new products and sturdy demand offtake from its existing products, especially ATBS, we expect revenues to grow nearly 20% this fiscal. On balance, we advice accumulating the stock with a target of Rs 2523 (previous target: Rs 1799) based on 31x FY21e earnings over a period of 9-12 months.

Standalone (Rs crs)	FY17	FY18	FY19	FY20e	FY21e
Income from operations	640.79	729.68	1108.14	1309.04	1588.25
Other Income	12.48	30.70	49.95	55.59	71.65
EBITDA (other income included)	229.43	227.95	453.57	512.74	601.02
Profit after EO	140.28	143.88	282.49	358.51	418.28
EPS(Rs)	27.19	27.93	54.97	69.76	81.39
EPS growth (%)	6.7	2.7	96.8	26.9	16.7

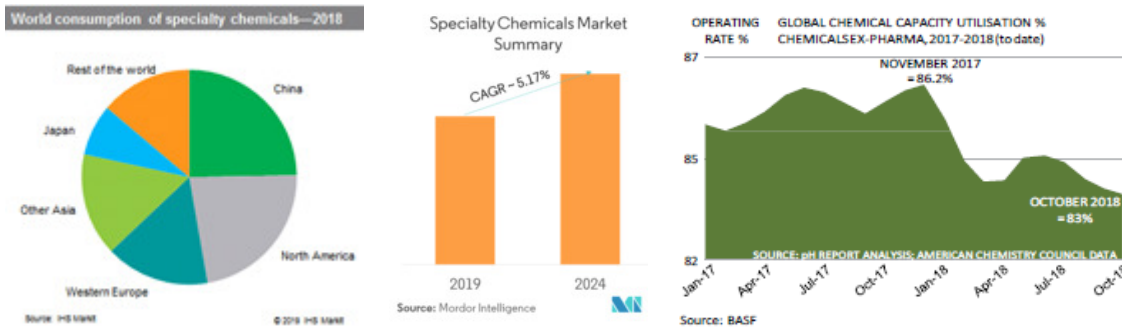
## Outlook & Recommendation

### Industry Overview

Upstream chemical industries like petrochemicals rely upon the dynamics of their main end market like the manufacturing market. While the downstream chemical industries like cosmetics are driven by changing trends in consumer spending such as higher per capita income of individuals. Due to global economic growth and pass-through of increasing naphtha prices, the global chemical sales volume is projected to accelerate at a CAGR of 6%-8% for the last two years ending CY2019.

As per Research and Markets, the specialty chemicals market has emerged as one of the most important chemical segments, globally. Adhesives & Sealants, agrochemicals, coatings and engineering thermoplastics constitute the largest market for specialty chemicals, collectively covering an estimated share of 50% of the global chemical sector. With a market size of \$850 billion for 2018, the specialty chemicals sector forms a significant part of the global chemical market. During 2018, the global specialty chemicals production registered an increase of 3.7% as compared to 2.2% in CY 2017. Amongst the global chemical competitive countries, China and India in particular, have emerged as major chemical hubs and presently are abode to some major names in the specialty chemicals.

According to the latest update of Mordor Intelligence, the market for specialty chemicals is expected to register a CAGR of around 5.17%, during 2019-2024. The major factors driving the growth of the market studied are the robust growth of construction activities, especially in the Asia-Pacific and the Middle East & African regions, and growth of oil exploration and production activities. The increasing industrial activities in agriculture, food, cosmetics, and other manufacturing sectors in countries like China and India, will contribute significantly to the growth of the specialty chemicals market in the region.



In a recently published report by Avendus, specialty chemicals are low volume but high-value compounds known as performance chemicals. The specialty chemical sector represents around 20% of the Indian chemical sector. The same report highlighted that this sector grew at a CAGR of 19% between FY 2016-19. The growth in CAGR is driven by increased adoption of specialty chemicals and their increased utilization in different product categories. Specialty chemicals can be sub-divided based on end-user industries which are driven by consumer demand (it has been highlighted in the figure below). These industries are the largest constituents of the specialty chemicals industry and cumulatively constitute over 80% of the specialty chemicals universe. With an increasing market and purchasing power, the domestic industry is likely to grow at over 15-19% in the coming years.

#### Trends and their impact on key segments of chemical industry

Key Trends	Bulk Chemicals	Petrochemicals	Specialty Chemicals	Fertilizers
Growing per capita consumption	✓	✓	✓	✓
Move towards greener solutions			✓	
Nanotech & Advanced polymers	✓		✓	
Disruption through 3D printing		✓	✓	
Emergence of Technology Platforms		✓	✓	
Evolving B2B consumer preferences		✓	✓	
Alternative feedstock: Creating new normal	✓	✓	✓	✓
Mega Mergers & Consolidation		✓	✓	✓
Access to strategic natural resources	✓	✓	✓	✓

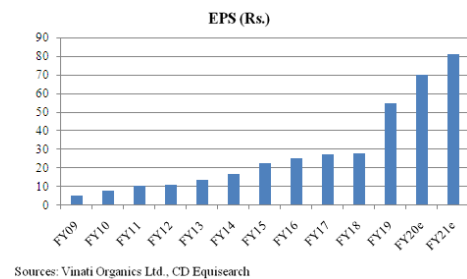
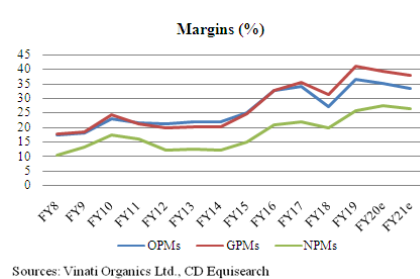
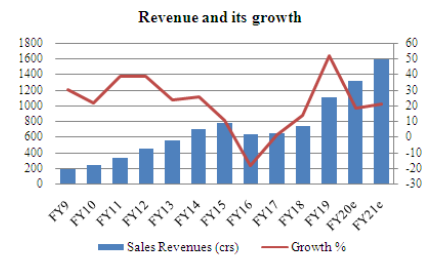
Source: TSMG Analysis

# CD Equiresearch Pvt Ltd

The closure of plants in European Union and China, owing to increasing environmental concerns, has opened doors for Indian manufacturers to invest further in specialty chemicals, according to a report by rating agency Crisil. “While India also faces threat from environmental concerns, the threat is limited to smaller players and shall serve as an opportunity for larger players to capture the market,” it said. The specialty chemicals market is likely to clock a compounded annual growth rate of 12-13 per cent over the next five years, with the intensity of specialty chemicals in end-use domestic markets expected to rise, according to an industry report.

## Financials & Valuations

VOL's revenue increased by an impressive 51.9% y-o-y last fiscal thanks to the increase in revenues from ATBS- partially due to the exit of Lubrizol. ATBS contributed to almost 60% of its revenue mix and its revenue grew by 69% in FY19 as against FY18. In anticipation of strong demand for ATBS, VOL decided to expand its ATBS capacity from 26000 TPA to 40000 TPA by September 2019. Due to certain delays, the project should get completed by November 2019. The total capital expenditure is Rs. 110 crore and the plant is expected to reach full capacity in the next 3 years. Accentuated by the increasing demand for ATBS in the global market, VOL's market share of ATBS increased to around 65%- operating margin was 36.4% for the year ended March 2019. With the launch of butyl phenol, which is a lower margin product compared to ATBS, the management expects blended EBIDTA margins to be around 35% for the next 2 years. This is mainly due to its agreement with customers on formula-based pricing. This helps VOL prevent margin erosion due to volatility in crude prices.



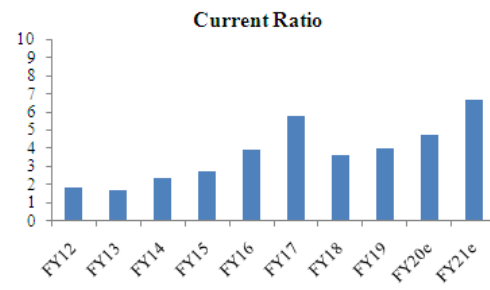
Sources: Vinati Organics Ltd., CD Equiresearch

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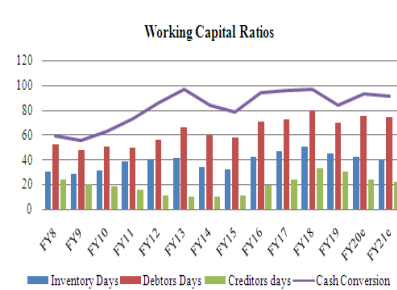
Sources: Vinati Organics Ltd., CD Equiresearch

Last year, IBB sales suffered on account of a major client's capacity shutdown for brownfield expansion and exports to China were also throttled due to Chinese clients facing closure owing to environmental problems. VOL's major client for IBB has increased its Ibuprofen capacity- the upsurge in demand for the low cost and effective pain killer Ibuprofen is being witnessed globally. As a result, IBB off-take is expected to rebound from the third quarter of FY 20.

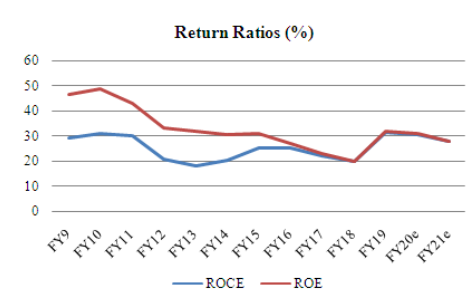
Along with the increase in capacity, Vinati is also expected to launch butyl phenol. Butyl phenols are intermediaries which find applications as raw materials for products that go into a wide variety of industries such as perfumery, inks & resins, plastics and lubricants. The main raw material required is isobutylene for which Vinati is the largest manufacturer, so it makes sense to further integrate- the current annual consumption is around 25000 MTPA in India. Vinati Organics is looking at this segment as an import substitution opportunity and is creating a capacity of 37000 MTPA- it expects to have a market share of 80%-90% as it will have the advantage of cost over the imported goods albeit at a lower margin.



Sources: Vinati Organics Ltd., CD Equiresearch



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# CD Equisearch Pvt Ltd

The stock currently trades at 32.0x FY20e EPS of Rs 69.76 and 27.5x FY21e EPS of Rs 81.39. With the company's objective of doubling its revenues over the next 3 years, and the government's identification of chemicals as a key priority segment would enable VOL to report consistent revenue growth of nearly 20% for the next 2 years. The key risk remains lower offtake and/or further delays to the BP plant and ATBS capacity expansion. On balance, we advise 'accumulating' the stock with a target of Rs 2523 (previous target: Rs 1799) based on 31x FY21e earnings over a period of 9-12 months. For more information, refer to our March 2019 report.

## Cross Sectional Analysis

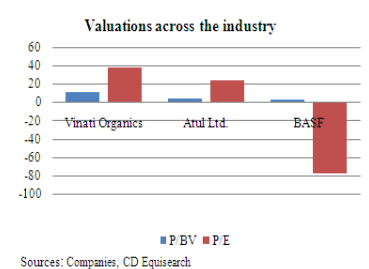
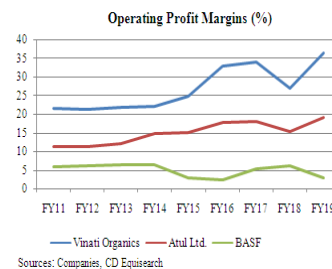
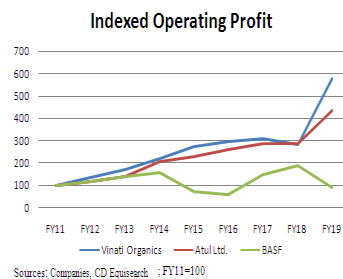
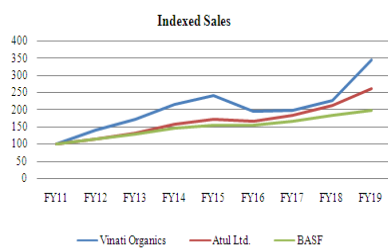
Company	Equity	CMP	MCAP*	Sales*	Profit*	OPM(%)	NPM(%)	Int Cov	ROE(%)	Mcap/ Sales	P/BV	P/E
Vinati Organics	10	2235	11485	1139	301	38.4	26.4	425.2	31.3	10.1	10.5	38.2
Atul Ltd.	30	4033	11961	4166	499	20.6	12.0	103.1	19.9	2.9	4.4	24.0
BASF	43	1019	4412	6012	-57	2.5	-0.9	0.2	-4.1	0.7	3.2	-77.7

\*figures in crores; calculations on ttm basis

Book value adjusted for goodwill and revaluation reserve wherever applicable;

Despite volume growth of a mere 3%, Atul registered a revenue growth of 22.5% and a profit growth of 56.4% y-o-y on a consolidated basis in FY19 as some of its plants ran at a lower capacity. Decent volume growth in its performance and other chemicals segments helped it generate revenue growth of 21.6% (on a consolidated basis) in FY19 on the back of strong demand from aromatics and polymers.- Cheaper imports and new players in the polymer market will keep the market competitive and may keep the margins under pressure. Growth in the pharmaceutical sector in FY19 propped up revenues by around 20% in its life sciences division as well. Atul also has plans to set up multiple projects amounting to upwards of Rs. 400 crores with a sales potential of Rs. 846 crores at full capacity utilization- some of which will also cater to environment protection.

Tepid revenue growth of 7.9% last fiscal did not support BASF margins which dropped from 6.1% in FY18 to a meagre 2.7% in FY19 at the operating level and ended up with them posting a loss of Rs. 54.2 crores before taxes and exceptional items. This was mainly due to its material segment which contributes more than a quarter of its revenues but posted a loss of Rs. 86.04 crore at the EBIT level down from Rs. 52.4 crores profit the year earlier mainly on account of higher raw material costs. The agricultural solutions business registered a massive profit growth of 24% due to increased sales for products like cotton, corn and rice. The industrial segment showed good growth as well on the back of strong domestic demand driven by an increase in prices.



## Financials

### Quarterly Results - Standalone

Figures in Rs crs

	Q1FY20	Q1FY19	% chg.	FY19	FY18	% chg.
<b>Income From Operations</b>	<b>290.74</b>	<b>259.74</b>	<b>11.9</b>	<b>1108.14</b>	<b>729.68</b>	<b>51.9</b>
Other Income	11.42	17.11	-33.2	49.95	30.70	62.7
<b>Total Income</b>	<b>302.17</b>	<b>276.85</b>	<b>9.1</b>	<b>1158.09</b>	<b>760.38</b>	<b>52.3</b>
Total Expenditure	170.57	173.00	-1.4	704.52	532.43	32.3
<b>EBITDA (other income included)</b>	<b>131.60</b>	<b>103.84</b>	<b>26.7</b>	<b>453.57</b>	<b>227.95</b>	<b>99.0</b>
Interest	0.30	0.18	67.7	0.94	1.21	-22.0
Depreciation	6.98	6.75	3.5	27.39	23.36	17.2
<b>PBT</b>	<b>124.31</b>	<b>96.91</b>	<b>28.3</b>	<b>425.24</b>	<b>203.37</b>	<b>109.1</b>
Tax	41.95	32.66	28.4	142.75	59.49	140.0
<b>PAT</b>	<b>82.36</b>	<b>64.25</b>	<b>28.2</b>	<b>282.49</b>	<b>143.88</b>	<b>96.3</b>
EO	-	-	-	-	-	-
<b>Adjusted Net Profit</b>	<b>82.36</b>	<b>64.25</b>	<b>28.2</b>	<b>282.49</b>	<b>143.88</b>	<b>96.3</b>
EPS(Rs)	16.03	12.50	28.2	54.97	27.93	96.8

### Income Statement - Standalone

Figures in Rs crs

	FY17	FY18	FY19	FY20e	FY21e
<b>Income From Operations</b>	<b>640.79</b>	<b>729.68</b>	<b>1108.14</b>	<b>1309.04</b>	<b>1588.25</b>
Growth (%)	1.6	13.9	51.9	18.1	21.3
Other Income	12.48	30.70	49.95	55.59	71.65
<b>Total Income</b>	<b>653.28</b>	<b>760.38</b>	<b>1158.09</b>	<b>1364.63</b>	<b>1659.89</b>
Total Expenditure	423.84	532.43	704.52	851.89	1058.88
<b>EBITDA (other income included)</b>	<b>229.43</b>	<b>227.95</b>	<b>453.57</b>	<b>512.74</b>	<b>601.02</b>
Interest	1.86	1.21	0.94	1.12	1.18
Depreciation	21.61	23.36	27.39	32.52	40.88
<b>PBT</b>	<b>205.97</b>	<b>203.37</b>	<b>425.24</b>	<b>479.10</b>	<b>558.97</b>
Tax	65.69	59.49	142.75	120.59	140.69
<b>PAT</b>	<b>140.28</b>	<b>143.88</b>	<b>282.49</b>	<b>358.51</b>	<b>418.28</b>
EO	-	-	-	-	-
<b>Adjusted Net Profit</b>	<b>140.28</b>	<b>143.88</b>	<b>282.49</b>	<b>358.51</b>	<b>418.28</b>
EPS (Rs)	27.19	27.93	54.97	69.76	81.39

## Balance Sheet

Figures in Rs crs

	FY17	FY18	FY19	FY20e	FY21e
<b>Sources of Funds</b>					
Share Capital	10.32	10.28	10.28	10.28	10.28
Reserves	669.69	786.39	1041.00	1356.14	1724.85
<b>Total Shareholders' Funds</b>	<b>680.01</b>	<b>796.66</b>	<b>1051.28</b>	<b>1366.42</b>	<b>1735.13</b>
Long Term Debt	0.00	0.00	0.00	0.00	0.00
<b>Total Liabilities</b>	<b>680.01</b>	<b>796.66</b>	<b>1051.28</b>	<b>1366.42</b>	<b>1735.13</b>
<b>Application of Funds</b>					
Gross Block	489.19	502.26	547.25	898.42	918.42
Less: Accumulated Depreciation	21.59	45.41	72.74	105.26	146.14
<b>Net Block</b>	<b>467.60</b>	<b>456.84</b>	<b>474.51</b>	<b>793.16</b>	<b>772.28</b>
Capital Work in Progress	7.38	34.88	191.18	20.00	20.00
Investments	61.83	131.74	96.47	200.00	500.00
<b>Current Assets, Loans &amp; Advances</b>					
Inventory	65.07	82.23	92.39	106.25	122.19
Trade receivables	140.54	177.11	243.98	292.77	351.33
Cash and Bank	4.75	5.24	3.80	9.68	21.35
Short term loans (inc. OCA)	54.86	66.56	94.43	98.20	106.85
<b>Total CA</b>	<b>265.22</b>	<b>331.16</b>	<b>434.60</b>	<b>506.91</b>	<b>601.72</b>
Current Liabilities	50.72	96.61	85.56	96.73	105.62
Provisions-Short term	2.68	2.67	3.24	3.58	3.93
<b>Total Current Liabilities</b>	<b>53.40</b>	<b>99.28</b>	<b>88.80</b>	<b>100.31</b>	<b>109.55</b>
Net Current Assets	211.82	231.88	345.80	406.60	492.17
Net Deferred Tax Liability	-69.55	-80.86	-84.57	-84.57	-84.57
Net long term assets ( net of liabilities)	0.92	22.18	27.89	31.23	35.24
<b>Total Assets</b>	<b>680.01</b>	<b>796.66</b>	<b>1051.28</b>	<b>1366.42</b>	<b>1735.13</b>

## Key Financial Ratios

	FY17	FY18	FY19	FY20e	FY21e
<b>Growth Ratios(%)</b>					
Revenue	1.6	13.9	51.9	18.1	21.3
EBITDA	7.8	-0.6	99.0	13.0	17.2
Net Profit	6.7	2.6	96.3	26.9	16.7
EPS	6.7	2.7	96.8	26.9	16.7
<b>Margins (%)</b>					
Operating Profit Margin	33.9	27.0	36.4	34.9	33.3
Gross profit Margin	35.5	31.1	40.8	39.1	37.8
Net Profit Margin	21.9	19.7	25.5	27.4	26.3
<b>Return (%)</b>					
ROCE	22.4	19.8	31.5	30.8	27.9
ROE	23.0	19.9	31.8	30.8	27.9
<b>Valuations</b>					
Market Cap/ Sales	6.1	6.4	7.6	8.8	7.2
EV/EBITDA	16.8	19.8	18.4	22.2	18.9
P/E	27.9	32.3	29.9	32.0	27.5
P/BV	5.8	6.0	8.4	8.7	6.8
<b>Other Ratios</b>					
Interest Coverage	111.6	169.0	451.5	429.1	476.7
Debt Equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity Ratio	-0.1	-0.2	-0.1	-0.2	-0.3
Current Ratio	5.8	3.6	4.0	4.7	6.7
<b>Turnover Ratios</b>					
Fixed Asset Turnover	1.5	1.6	2.4	2.1	2.0
Total Asset Turnover	1.0	1.0	1.2	1.1	1.0
Inventory Turnover	7.8	7.2	8.1	8.6	9.3
Debtors Turnover	5.0	4.6	5.3	4.9	4.9
Creditor Turnover	15.4	11.1	12.1	15.1	16.9
<b>WC Ratios</b>					
Inventory Days	46.7	50.5	45.2	42.6	39.4
Debtor Days	72.7	79.4	69.3	74.8	74.0
Creditor Days	23.7	33.0	30.2	24.2	21.6
Cash Conversion Cycle	95.7	97.0	84.4	93.1	91.8

## Cumulative Financial Data

	FY10-12	FY13-15	FY16-18	FY19-21e
Income from operations	1002	2021	2001	4005
Operating profit	217	465	621	1390
EBIT	217	442	607	1467
PBT	196	402	596	1463
PAT	147	269	416	1059
Dividends	25	54	56	149
OPM (%)	21.7	23.0	31.0	34.7
NPM (%)	14.7	13.3	20.8	26.4
Interest coverage	10.5	11.2	55.5	452.9
ROE (%)	38.9	28.9	23.0	28.8
ROCE (%)	22.8	22.9	22.0	28.7
Debt-Equity*	0.9	0.2	0.0	0.0
Fixed asset turnover	3.5	2.9	1.7	2.2
Debtors turnover	5.9	6.3	4.4	5.1
Inventory turnover	9.5	10.6	6.7	8.5
Creditors turnover	29.6	34.1	10.8	13.5
Debtor days	62.1	58.2	83.8	72.2
Inventory days	38.4	34.3	54.2	42.8
Creditor days	12.3	10.7	33.7	27.0
Cash conversion	88.1	81.8	104.3	88.0
Dividend payout ratio (%)	16.9	19.8	13.4	14.0

FY10-12 implies three year period ending fiscal 12

\*as on terminal year

VOL's doubled its revenue from FY10-12 to FY16-18 and in FY19; it crossed the cumulative figures of FY10-12, thanks to the marked growth in volumes for ATBS driven by the surge in its applications. Consequently, ATBS contribution to the revenue mix has increased to nearly 60% now. Revenue growth during the period FY18 and FY19 increased significantly on the back of higher crude prices and also higher realizations from new customers due to Lubrizol shutting down its production of ATBS. Consistent improvements in operational efficiency over the years have resulted in an improvement in margins (see table).

Going forward, with the launch of new products in pipeline (butyl phenol), significant expansion activities (ATBS) and growing demand for ATBS, cumulative revenues are expected to double in FY19-21e from the previous period (see table). The sharp increase in the interest coverage ratio for the forecast period of FY19-21e is on account of the company's low outstanding debt. The operating margins are expected to be near 35% for FY19-21e while the net profit margin is expected to markedly increase as well over the same period- in part contributed by reduced corporate tax rate of 25.2% from FY20.



## Financial Summary- US dollar denominated

million \$	FY17	FY18	FY19	FY20e	FY21e
Equity capital	1.6	1.6	1.5	1.5	1.5
Shareholders' funds	104.4	118.2	145.7	185.9	237.1
Total debt	0.4	2.3	0.5	0.7	0.7
Net fixed assets (incl. CWIP)	73.3	75.6	96.2	114.8	111.8
Investments	9.5	20.3	13.9	28.2	70.6
Net current assets	32.2	31.4	43.7	50.4	61.6
Total assets	104.4	118.2	145.7	185.9	237.1
Revenues	95.5	113.2	158.6	184.8	224.2
EBITDA	34.2	35.4	64.9	72.4	84.8
EBDT	33.9	35.2	64.8	72.2	84.7
PBT	30.7	31.6	60.8	67.6	78.9
PAT	20.9	22.3	40.4	50.6	59.0
EPS(\$)	0.41	0.43	0.79	0.98	1.15
Book value (\$)	2.02	2.30	2.84	3.62	4.61

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 70.84/\$).  
All dollar denominated figures are 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/\$	FY14	FY15	FY16	FY17	FY18	FY19
Average	60.5	61.15	65.46	67.09	64.45	69.89
Year end	60.1	62.59	66.33	64.84	65.04	69.17

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.