

Finolex Industries Ltd.

No. of shares (m)	620.47
Mkt cap (Rs crs/\$m)	10877/1325.6
Current price (Rs/\$)	175/2.1
Price target (Rs/\$)	150/1.8
52 W H/L (Rs.)	196/122
Book Value (Rs/\$)	77/0.9
Beta	0.9
Daily volume NSE (avg. monthly)	1203490
P/BV (FY24e/25e)	2.1/1.9
EV/EBITDA (FY24e/25e)	11.8/10.6
P/E (FY24e/25e)	21.0/18.7
EPS growth (FY23/24e/25e)	-68.5/117.9/12.5
OPM (FY23/24e/25e)	6.7/13.9/13.8
ROE (FY23/24e/25e)	5.7/10.4/10.6
ROCE (FY23/24e/25e)	5.3/9.9/10.1
D/E ratio (FY23/24e/25e)	0.1/0.1/0.1
BSE Code	500940
NSE Code	FINPIPE
Bloomberg	FNXP IN
Reuters	FINX.NS

Shareholding pattern

	%
Promoters	52.5
MFs / Banks / FIs/Others	12.2
FPIs	5.5
Govt. Holding	0.0
Public & Others	29.8
Total	100.0

As on March 31, 2023

Recommendation

REDUCE

Analyst

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Highlights

- Driven by higher pipe volumes and stabilization of PVC prices, operating profit rose by an astonishing 137% in Q4 when compared to that in Q3 , though it still declined 17.8% in Q4 of previous fiscal. EBIT of Finolex's PVC business (Rs 117.25 crs in Q4 Vs a meager Rs 12.43 crs in Q3) reflects stabilizing PVC resin prices; average PVC prices stood at some \$920 / ton in Q4 as against \$840/ton in Q3. As an indicator of profitability of PVC business, PVC-EDC delta stood at \$632 / ton in Q4 when compared with \$570/ton in Q3, though far off from \$780/ton in Q1 of previous fiscal.
- With base effect coming into play, recovery in post tax earnings (year over year) - was hard to come by as earnings before tax plummet by 16.7% in Q4. As instance of dramatic changes in business scenario in the last one year, PVC prices (average) which stood at some \$1563 per ton in Q4 of FY22 declined to \$920 per ton in the last quarter, while PVC/EDC delta also tumbled to \$632 /ton from \$728/ton.
- With gradual rise in saleable volumes of PVC pipes & fittings, external sales of Finolex's PVC resin output has been gradually declining in the last few quarters. As an indication to that, external sale of its PVC resin dropped to 26898 tons in FY23 when compared with 57095 tons in FY22. Pipes & fittings volumes on the other hand has surged by all but 31% to 3.01 lakh tons though on a weak base.
- Anticipating the growing prominence of fittings business, Finolex recently commissioned a PVC fittings plant in Pune with a capacity of some 12000 mt by spending Rs 100 crs, funded by internal accruals. Besides, the company continues to invest in improving operating efficiencies and digitalization of its supply chain.
- The stock currently trades at 21x FY24e EPS of Rs 8.34 and 18.7x FY25e EPS of Rs 9.38. Revival in PVC prices globally has triggered earning upgrades for the current fiscal - post tax earnings estimated to more than double in the current fiscal though on weak base. Finolex's gut-wrenching decline in free cash flows last fiscal was an outcome of precipitous fall in earnings as margins in both PVC and PVC & fittings businesses evaporated. Its aggressive foray in non-agri pipe industry has barely helped matters not least due to dismal "velocity" in its agri pipe business and record inventory losses. On balance, we maintain our reduce rating on the stock with revised target of Rs 150 (previous target: Rs 109) based on 16x FY25e earnings over a period of 9-12 months.

(Figures in Rs crs)

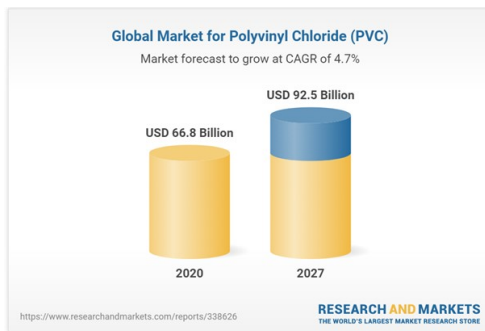
	FY21	FY22	FY23	FY24e	FY25e
Income from operations	3462.27	4647.42	4397.05	4930.87	5564.22
Other Income	72.48	459.22	121.38	129.32	141.39
EBITDA (other income included)	1061.79	1482.96	413.92	815.84	907.58
Profit after EO	728.47	753.32	236.59	515.52	580.12
EPS (Rs)	11.74	12.14	3.83	8.34	9.38
EPS growth (%)	124.3	3.4	-68.5	117.9	12.5

Investment Thesis

PVC Industry

According to a report by Research and Markets, the global market for PVC which was estimated at \$71 bn in the year 2022 is estimated to rise to \$109.2 bn by 2030, growing at a CAGR of 5.5% during this period. Though developed markets comprise large markets for PVC, China is the world's second largest market for PVC and it is estimated to grow by 9% CAGR during the projected period. Other noteworthy markets include Japan, Canada and Germany with all these markets estimated to grow by sub 5% during this period.

Global PVC Market



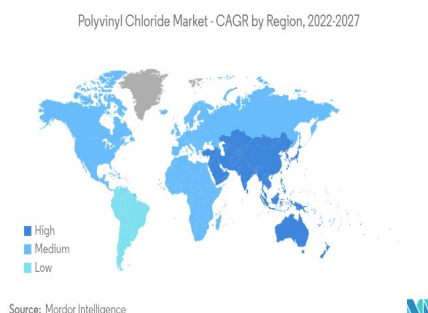
Source: Research & Markets

Source: Modor Intelligence

Modor Intelligence though estimates the global PVC market to grow by some 4% CAGR during 2023-28. It reckons that outbreak to Covid-19 affected automotive, electrical and electronics, and building and construction industries. Now with return to normalcy, the growth in these industries would propel growth of PVC industry. Other demand drivers, it feels would include PVC's dominant position in the construction industry, accelerating use of PVC in EV industry and increasing application in healthcare industry. Yet its market's growth may be hindered by environmental and health hazards caused by its production, usage and disposal.

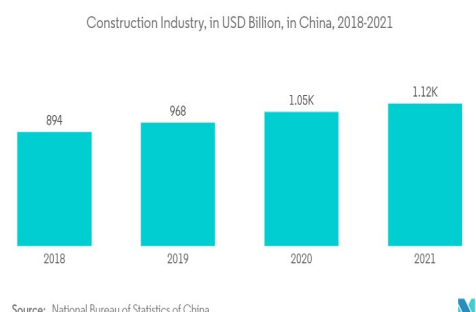
Modor posits that Asia- Pacific region is expected to dominate the PVC market during the forecast period with China leading the ranks owing to its growing construction and automotive industry. More growth enablers in the Asia-Pacific region include growing demand for PVC from countries such as India, China and Japan. No small growth in demand for PVC is projected from the electronics industry of China and India - with Government of India taking several measures to promote the domestic electronics manufacturing industry and exports.

PVC market by region



Source: Modor Intelligence

China Construction Industry



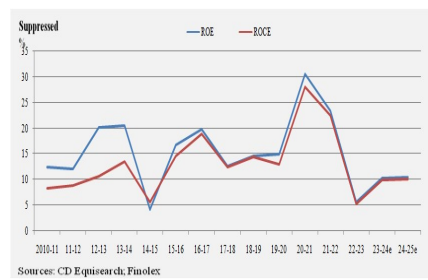
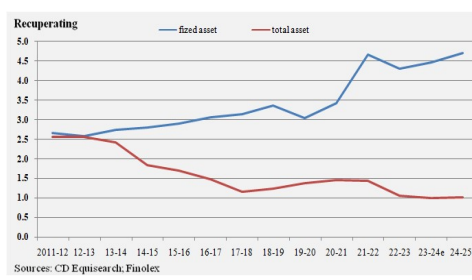
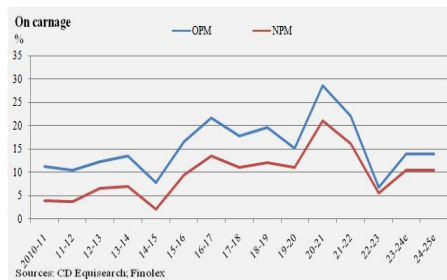
Source: National Bureau of Statistics of China

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Financials & Valuation

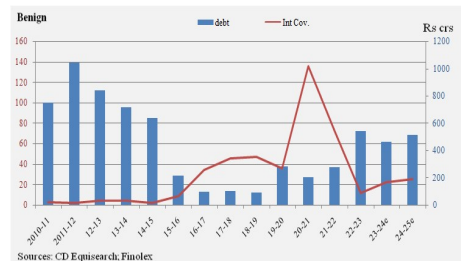
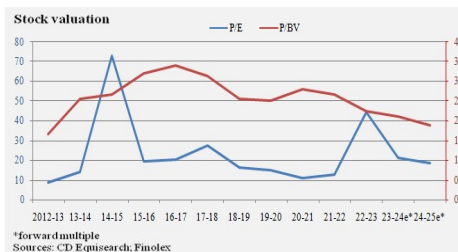
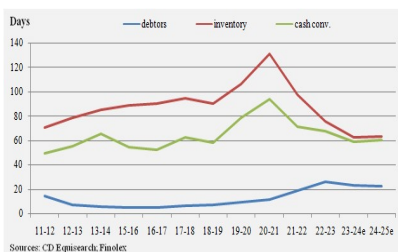
Notwithstanding GOI's barely unenterprising efforts to build water and housing infrastructure in the country through the medium of various social schemes such as Nal Se Jal, Pradhan Mantri Awas Yojana, Swachh Bharat Mission, Finolex's PVC pipes & fittings business needs to reflect on the genesis of its scarcely robust sales volume growth over the years - 6.3% CAGR in eight years ending FY23, though Covid 19 had its impact on non-agri pipe demand for several months. Despite strong competitive advantage in agri pipes - backward integration and distribution network to name a few, its PVC pipes and fittings business has barely been unaffected by volatility in PVC prices and monsoons, thus making business scaling all the more elusive.

Yet spirited efforts to expand the portfolio of non-agri pipes and CPVC pipes would help in lending some semblance to margins which took a brutal knock last fiscal when knee jerk fall in PVC prices evaporated earnings. Now its EBIT margin is projected to rise to some 7.9% in the current fiscal as against 3.7%, one of the lowest readings in at least seven years which would help in more than double PVC pipes & fittings EBIT over the next two years, though on barely stimulating base. It is also doubling down on the marketing spends to boost brand building in non-agri pipes business by tapping construction, plumbing and sanitation segments, which could act as a catalyst for achieving higher return on capital.



Yet its subdued ROE barely reflects tangible benefits of backward integration not least due to seemingly weak pricing power in PVC pipes & fittings business and due to its hardly small stock of liquid assets, thus signifying dismal capital allocation, though record drop in earnings explain much of the sclerosis in return on capital (both ROE and ROCE) last fiscal. Increased efforts to build self reliance (little outsourcing in PVC pipes & fittings business) and improve efficiencies are steps in right direction for it would fortify Finolex's competitive advantage through cost control. Much of the capex over the next two years would be channelized in areas of replacement and maintenance which would help in boosting capacity utilization; somewhat reflected in rising fixed asset turnover ratio.

The stock currently trades at 21x FY24e EPS of Rs 8.34 and 18.7x FY25e EPS of Rs 9.38. Post tax earnings is projected to surge, albeit on low base, driven by stabilizing PVC resin prices and increased momentum in of take of non-agri pipes. After record inventory losses owing to nerve-wracking fall in PVC prices globally - averaged \$1450 / ton in Q1 FY23 and \$840/ton in Q3- margins have revived, which supported earnings last quarter and that has also precipitated earning upgrade for the current fiscal - Rs 8.34 now Vs Rs 6.79 earlier. Yet barely unmiserable ROE needs to be watched out for it underscores inefficiencies of no small sort. Weighing odds, we maintain our reduce rating on the stock with revised target of Rs 150 (previous target: Rs 109) based on 16x FY25e earnings over a period of 9-12 months. For more info refer to our Oct report.



Cross Sectional Analysis

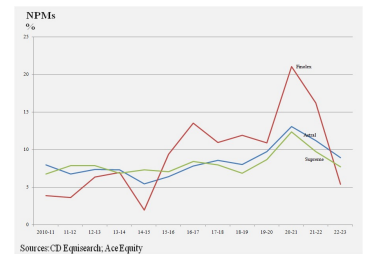
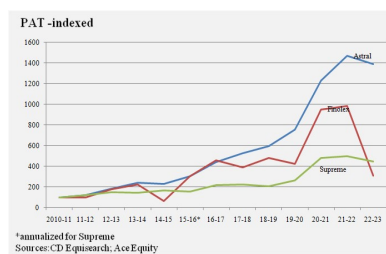
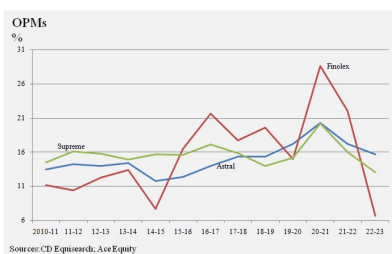
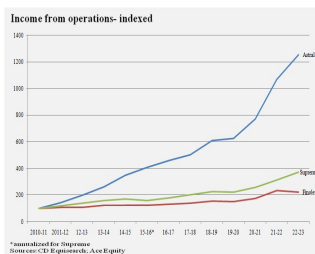
Company	Equity*	CMP	Mcap*	Sales*	Profit*	OPM (%)	NPM (%)	Int. Cov.	ROE (%)	DER	Mcap / sales	P/BV	P/E
Astral Ltd	27	1961	52661	5159	458	15.7	9.0	16.5	20.9	0.0	10.2	22.5	115.0
Finolex Ind.	124	175	10877	4397	237	6.7	5.4	11.9	5.7	0.1	2.5	2.3	46.0
Supreme	25	3124	39684	9202	864	13.0	7.7	120.2	22.3	-	4.3	9.6	45.9

*figures in crores; calculations on ttm basis

Book value adjusted for goodwill and revaluation reserves where applicable

After having spent a total of some Rs 400 crs in its plastic piping business last fiscal in expanding capacities, increasing product range and commissioning greenfield plants at Guwahati, Erode and Cuttack, Supreme Industries is planning to invest a total of Rs 750 crs in the current fiscal which would involve capacity enhancements and introduction of new product ranges across all its segments. Notwithstanding not so strong base, Supreme's plastic piping system business clocked volume growth of 37% last fiscal, though drop in PVC resin prices may have also bucked up the product demand. Besides, strong rebound in housing demand and good monsoons also supported demand for PVC pipes & fittings last fiscal. It expects robust demand for plastic piping products in the current fiscal not least due to several social initiatives of both Centre and State Governments.

Largely unaffected by growing clamor about rising inflation, Astral managed to report 18.8% growth in volumes of its plumbing business last fiscal, which probably prompted it to set up a greenfield plant with capacity of 70000 mt in Hyderabad with an investment of Rs 100 crs which will go through phase wise completion by FY26; it has also managed to fully operate its Bhubaneswar plant. Besides, new state of the art pipes plants will also come up at Guwahati and Dahej which will not help in strengthening its market presence but also in capturing market for newer products. Motley of initiatives including entering new geographies, expanding distribution network by continued addition of dealers, plumbers and new product launches would help the company, by its internal estimates, to grow its piping business by 15% CAGR over the next five years.



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Financials

Quarterly Results

	Figures in Rs crs					
	Q4FY23	Q4FY22	% chg.	FY23	FY22	% chg.
Income from operations	1141.06	1594.57	-28.4	4397.05	4647.32	-5.4
Other Income	29.20	400.82	-92.7	121.38	459.22	-73.6
Total Income	1170.26	1995.39	-41.4	4518.43	5106.54	-11.5
Total Expenditure	923.63	1329.91	-30.5	4104.51	3623.58	13.3
EBIDTA (other income incl.)	246.63	665.48	-62.9	413.92	1482.96	-72.1
Interest	6.46	8.06	-19.9	27.23	14.09	93.3
Depreciation	23.80	21.55	10.4	89.20	83.40	7.0
PBT	216.37	635.87	-66.0	297.49	1385.47	-78.5
Tax	58.02	142.07	-59.2	60.90	332.00	-81.7
Net Profit	158.35	493.80	-67.9	236.59	1053.47	-77.5
Extraordinary Item	0.00	300.85	-100.0	0.00	300.15	-100.0
Adjusted Net Profit	158.35	192.95	-17.9	236.59	753.32	-68.6
EPS	2.56	3.11	-17.6	3.83	12.14	-68.5

Segment results

	Figures in Rs crs					
	Q4FY23	Q4FY22	% chg.	FY23	FY22	% chg.
Segment Revenue						
PVC	501.29	1044.40	-52.0	2271.02	2962.10	-23.3
PVC Pipes & Fittings	1102.11	1276.92	-13.7	4113.28	3852.67	6.8
Total	1603.40	2321.32	-30.9	6384.30	6814.77	-6.3
Less: Inter-segment revenue	462.34	726.75	-36.4	1987.25	2167.45	-8.3
Income from operations	1141.06	1594.57	-28.4	4397.05	4647.32	-5.4
Segment EBIT						
PVC	117.25	156.46	-25.1	91.90	722.78	-87.3
PVC Pipes & Fittings	90.32	94.20	-4.1	154.18	250.24	-38.4
Total	207.57	250.66	-17.2	246.08	973.02	-74.7
Interest	6.46	8.06	-19.9	27.23	14.09	93.3
Unallocable exp.(net of income)	-15.26	-393.27	-96.1	-78.64	-426.54	-81.6
PBT	216.37	635.87	-66.0	297.49	1385.47	-78.5

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Income Statement

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Income from operations	3462.27	4647.32	4397.05	4930.87	5564.22
<i>Growth (%)</i>	16.0	34.2	-5.4	12.1	12.8
Other Income	72.48	459.22	121.38	129.32	141.39
Total Income	3534.75	5106.54	4518.43	5060.19	5705.61
Total Expenditure	2472.96	3623.58	4104.51	4244.34	4798.03
EBIDTA (other income incl.)	1061.79	1482.96	413.92	815.84	907.58
Interest	7.27	14.09	27.23	32.52	31.66
EBDT	1054.52	1468.87	386.69	783.32	875.92
Depreciation	77.72	83.40	89.20	95.96	102.43
Tax	248.78	332.00	60.90	171.84	193.37
Net Profit	728.02	1053.47	236.59	515.52	580.12
EO	-0.45	300.15	-	-	-
Adjusted Net Profit	728.47	753.32	236.59	515.52	580.12
EPS (Rs)	11.74	12.14	3.83	8.34	9.38

Segment results

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Segment Revenue					
PVC	827.52	794.65	283.77	179.42	76.30
PVC Pipes & Fittings	2634.75	3852.67	4113.28	4751.45	5487.92
Total sales	3462.27	4647.32	4397.05	4930.87	5564.22
Segment EBIT					
PVC	696.40	722.78	91.90	260.00	297.00
PVC Pipes & Fittings	251.19	250.24	154.18	373.33	410.66
Total	947.59	973.02	246.08	633.33	707.66
Interest	7.27	14.09	27.23	32.52	31.66
Unallocable exp.(net of income)	-36.48	-426.54	-78.64	-86.56	-97.48
PBT	976.80	1385.47	297.49	687.36	773.49

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Balance Sheet

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
SOURCES OF FUNDS					
Share Capital	124.10	124.10	123.67	123.67	123.67
Reserves	2948.78	3739.66	4701.23	5173.70	5774.36
Total Shareholders Funds	3072.87	3863.75	4824.90	5297.37	5898.03
Long term debt	0.00	0.00	12.21	12.00	12.00
Total Liabilities	3072.88	3863.75	4837.11	5309.37	5910.03
APPLICATION OF FUNDS					
Gross Block	2,390.72	2451.40	2,602.54	2,802.54	2952.54
Less: Accumulated Depreciation	1,388.37	1458.17	1,547.37	1,643.33	1745.76
Net Block	1002.35	993.23	1055.17	1159.21	1206.78
Capital Work in Progress	8.15	9.46	43.82	10.00	10.00
Investments	1592.20	2633.29	3844.05	4043.71	4587.94
Current Assets, Loans & Advances					
Inventory	918.82	1015.47	673.15	774.12	890.24
Sundry Debtors	147.98	334.46	297.54	327.29	360.02
Cash and Bank	336.26	81.04	60.60	87.68	40.22
Loans and Advances	78.85	62.47	94.01	108.13	124.83
Total CA & LA	1481.91	1493.44	1125.30	1297.22	1415.32
Current Liabilities	932.33	1194.64	1131.53	1104.06	1212.18
Provisions	3.83	4.21	4.46	4.68	4.92
Total Current Liabilities	936.16	1198.85	1135.99	1108.74	1217.10
Net Current Assets	545.75	294.59	-10.69	188.48	198.22
Net Deferred Tax	-118.51	-115.70	-124.66	-129.66	-134.66
Other Assets (Net Of Liabilities)	42.94	48.89	29.42	37.63	41.75
Total Assets	3072.88	3863.75	4837.11	5309.37	5910.03

Key Financial Ratios

	FY21	FY22	FY23	FY24e	FY25e
Growth Ratios (%)					
Revenue	16.0	34.2	-5.4	12.1	12.8
EBIDTA (other income included)	121.8	4.3	-62.6	97.1	11.2
Net Profit	124.3	3.4	-68.6	117.9	12.5
EPS	124.3	3.4	-68.5	117.9	12.5
Margins (%)					
Operating Profit Margin	28.6	22.0	6.7	13.9	13.8
Gross Profit Margin	30.5	23.5	8.8	15.9	15.7
Net Profit Margin	21.0	16.2	5.4	10.5	10.4
Return (%)					
ROCE	28.0	22.5	5.3	9.9	10.1
ROE	30.6	23.4	5.7	10.4	10.6
Valuations					
Market Cap / Sales	2.3	2.1	2.4	2.2	2.0
EV/EBIDTA	6.8	7.4	22.5	11.8	10.6
P/E	10.8	12.7	44.6	21.0	18.7
P/BV	2.8	2.7	2.2	2.1	1.9
Other Ratios					
Interest Coverage	135.4	72.7	11.9	22.1	25.4
Debt-Equity Ratio	0.1	0.1	0.1	0.1	0.1
Current Ratio ^a	1.7	2.1	2.4	2.6	2.8
Turnover Ratios					
Fixed Asset Turnover	3.4	4.7	4.3	4.5	4.7
Total Asset Turnover	1.5	1.4	1.1	1.0	1.0
Debtors Turnover	31.3	19.3	13.9	15.8	16.2
Inventory Turnover	2.8	3.7	4.9	5.9	5.8
Creditors Turnover	7.4	8.1	10.9	14.0	14.4
WC Ratios					
Debtor days	11.7	18.9	26.2	23.1	22.5
Inventory days	131.1	97.4	75.1	62.2	63.3
Creditor days	49.0	45.3	33.5	26.1	25.4
Cash conversion cycle	93.8	71.1	67.9	59.2	60.4

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Cumulative Financial Data

Figures in Rs crs	FY17-19	FY20-22	FY23-25e
Income from operations	8431	11094	14892
Operating profit	1652	2463	1745
EBIT	1557	2414	1850
PBT	1520	2382	1758
PAT	1019	1807	1332
Dividends	471	646	340
PVC pipe sales (lakh tons)	7.2	7.0	10.2
PVC resin production (lakh tons)	7.7	6.9	7.6
PVC resin sales (lakh tons)	2.2	1.9	0.6
OPM (%)	19.6	22.2	11.7
NPM (%)	12.1	16.3	8.9
Interest coverage	41.6	74.0	20.2
ROE (%)	17.9	20.1	9.5
ROCE (%)	17.0	19.0	9.1
Fixed asset turnover	3.1	3.8	4.5
Debtors turnover	61.1	18.1	14.3
Inventory turnover	4.2	3.5	4.6
Creditors turnover	8.6	7.7	10.8
Debtors days	6.0	20.2	25.5
Inventory days	86.2	103.8	79.4
Creditor days	42.6	47.4	33.9
Cash conversion cycle	49.6	76.6	71.0
Dividend payout ratio (%)	47.1	30.7	25.5

FY17-19 implies three years ending fiscal 19; *as on terminal year

Stabilization in PVC prices in the second half of last fiscal helped save blushes for cumulative revenues during FY23-25e is now projected to rise over a third to Rs 14892 crs compared with Rs 11094 crs during the preceding three year period, but barely enough to stem drop in cumulative earnings (estimated to decline by over 26%) - see table. Thanks to gut-wrenching drop in operating margins during much of last fiscal, margins during FY23-25e would scarcely look sublime, thus precipitating hardly timid drop in operating profit (Rs 1745 crs VS Rs 2463 crs) during the projected period.

No small pile up of liquid assets coupled with little vivacity in post tax earnings during the projected period - though earnings would doubtlessly revive in coming two years - would stoke eye-popping decline in return on capital - ROE projected to drop to 9.5% during FY23-25e period from 20.1% in the preceding three year period; ROCE would also follow same fate with nearly 10% decline in its reading. Thanks to fall in prices of PVC and other raw material prices, inventory days would pummel to some 80 days in FY23-25 period from 104 days in FY20-22 period, thus triggering noticeable fall in cash conversion cycle (see table).

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Financial Summary – US dollar denominated

million \$	FY21	FY22	FY23	FY24e	FY25e
Equity capital	16.9	16.4	15.0	15.1	15.1
Equity shareholders' funds	384.3	476.9	575.6	630.5	703.8
Total debt	27.7	36.7	65.5	56.3	62.4
Net fixed assets (incl CWIP)	137.5	132.3	133.7	142.5	148.3
Investments	216.6	347.4	467.5	492.8	559.2
Net current assets	40.5	6.1	-12.6	7.9	9.1
Total assets	384.3	476.9	577.1	632.0	705.2
Revenues	466.6	623.7	546.9	601.0	678.1
EBITDA	143.2	148.7	51.5	99.4	110.6
EBDT	142.2	146.8	48.1	95.5	106.8
PBT	131.7	135.6	37.0	83.8	94.3
PAT	98.2	101.1	29.4	62.8	70.7
EPS(\$)	0.16	0.16	0.05	0.10	0.1
Book value (\$)	0.62	0.77	0.93	1.02	1.14

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rate (\$82.05/\$)

CD Equisearch Pvt Ltd

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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/\$	FY19	FY20	FY21	FY22	FY23
Average	69.89	70.88	74.20	74.51	80.39
Year end	69.17	75.39	73.50	75.81	82.22

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.