

Essel Propack Ltd (EPL)

No. of shares (m)	315.2
Mkt cap (Rs crs/\$m)	4098/594.0
Current price (Rs/\$)	130/1.9
Price target (Rs/\$)	155/2.2
52 W H/L (Rs.)	138/85
Book Value (Rs/\$)	42/0.6
Beta	0.5
Daily NSE volume (avg. monthly)	136670
P/BV (FY20e/21e)	2.8/2.4
EV/EBITDA (FY20e/21e)	7.9/7.1
P/E (FY20e/21e)	19.1/16.8
EPS growth (FY19/FY20e/21e)	9.1/12.5/14.2
OPM (FY19/FY20e/21e)	18.4/18.3/18.0
ROE (FY19/FY20e/21e)	15.1/15.2/15.5
ROCE(FY19/FY20e/21e)	11.8/12.5/13.3
D/E ratio (FY19/FY20e/21e)	0.5/0.4/0.3
BSE Code	500135
NSE Code	ESSELPACK
Bloomberg	ESEL IN
Reuters	ESEL.NS

Shareholding pattern %*

Promoters	57.0
MFs / Banks / FIs	2.3
Foreign Portfolio Investors	17.8
Govt. Holding	-
Total Public	22.9
Total	100.0

As on March 31, 2019.

*Post bonus issue

Recommendation

ACCUMULATE

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Company Brief

Essel Propack is the largest speciality packaging company, manufacturing laminated plastic tubes catering to the FMCG and pharma space.

Quarterly Highlights

- Lower offtake by key customers in India during the quarter crippled growth in net revenues to 1.5% (y-o-y) in Q4FY19 in AMESA. Egypt continued to post strong revenue growth for the quarter at 27.7% (18.0% on constant currency basis) helped by both oral and non-oral care categories. Offtake in oral care category in China has been declining over the past few years despite the subsidiary retaining its wallet share with key customers.
- In the United States, a second very high-speed tubing line- 'Shot line' was introduced during the year resulting in increased capacity. Due to this, there has been revenue growth of 22.4% in the USA helped by an increase in offtake by existing customers and better product mix. The Colombia unit revenue growth was 20.8% helped by strong share of non-oral category (47%). However, adverse currency fluctuation resulted in the unit posting net loss despite improved operating performance.
- Europe posted revenue growth of 14.8% for the year on the back of strong pipelines from Germany and Poland. With key oral care customers' offtake normalizing during the second half of the year, Poland registered revenue growth of 15.3% while EBITDA margin improved by 170 basis points to 9.6% due to operating efficiencies and better product mix.
- The long term debt is close to Rs. 500 crores and the company would likely fund any capex with internal accruals thus keeping a tab on accretion of long term debt. Short term debt will vary depending upon the working capital requirements of the company. It is currently at around Rs. 150 crores. This should bring down the finance cost (including bank charges) going forward, which is currently just above Rs. 60 crores annually.
- The stock currently trades at 19.1x FY19e EPS of Rs 6.80 and 16.8x FY20e EPS of Rs 7.76. Growth will be invigorated by burgeoning demand in the packaging industry, better capacity utilization at the company's Europe plants- relocation of Russian unit to a new location for future growth opportunities & setting up of a custom built factory near Guwahati, Assam. However, the disruption caused by the prospering e-commerce business indirectly exposes EPL to vagaries of demand. Weighing odds, we advise buying the stock with the revised target price of Rs 155 (previous target Rs 140 (adjusted for bonus)) based on 20x FY21e EPS of Rs 7.76 over a period of 9-12 months.

Consolidated (Rs crs)	FY17	FY18	FY19	FY20e	FY21e
Income from operations	2302.29	2423.88	2706.93	3085.72	3486.15
Other Income	50.95	26.37	32.51	20.58	19.58
EBITDA (other income included)	472.84	486.25	530.68	584.13	646.71
Consolidated Net Profit	162.65	174.14	190.46	214.25	244.68
EPS(Rs)	5.17	5.54	6.04	6.80	7.76
EPS growth (%)	-3.7	7.0	9.1	12.5	14.2

Outlook & Recommendation

Industry Overview

The boom in the global packaging sector hinges on both the growth in the global economy as well as the performance of the diverse range of industries that this sector caters to – pharmaceuticals, food & beverages, cosmetics, and other consumer goods. Additionally, exponentially expanding e-commerce market and rising demand for packaged foods have a direct bearing on the packaging sector. The FMCG business across categories of Beauty and Cosmetics, Foods, Homecare and Oral care constitutes a multitrillion dollar market globally and continues to grow in many different ways. In the developing economies, growth is powered by increasing young population, growing disposable income, lifestyle changes etc. In the developed economies where penetration and usage of FMCG products is already high, there is still a churn happening in the sense that new products addressing the contemporary lifestyle needs and aspirations emerge while some of the traditional products get phased out.

In the case of pharmaceuticals, the use of aluminium tubes for packaging is going out of favour for concerns on product safety and supply security. High barrier, safe laminated tubes with features such as tamper evidence, anti-counterfeit and innovative dispensing are gaining increasing acceptance as a superior packaging format by both- the OTC and prescription drugs.



According to a recent packaging industry report from Technavio, the global packaging market size will grow by close to USD 165 billion from 2017 to 2021, accelerating at a CAGR of nearly 6% during the forecast period. The growth in the global packaging market is mainly driven by the increasing demand from end-user sectors such as food and beverage, retail, and healthcare industries.

When it comes to geographic regions, the Asia Pacific has been leading the global packaging industry as one of the major revenue contributors, and its dominance is expected to be maintained during the forecast period. The growth of the packaging market in this region is mainly due to the rise in demand from the e-commerce retail industries in countries such as China, India, Australia, Singapore, Japan, and South Korea.

According to Mordor Intelligence, the tube packaging market was valued at USD 7.44 billion in 2018 and is expected to reach a value of USD 9.79 billion by 2024, at a CAGR of 5.5%, during the forecast period (2019-2024). The trend of laminated tubes is currently governing the market. These tubes improve the shelf-life of the product by offering protection against bacteria, due to which the demand is rising. The pharmaceutical market is also driving the growth of the market especially medicines which are used in Dermatology where tube packing is extensively used.

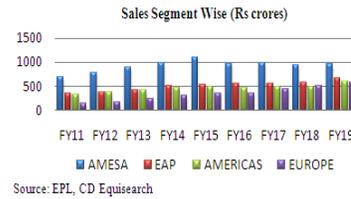
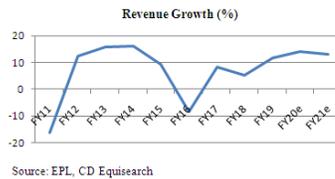
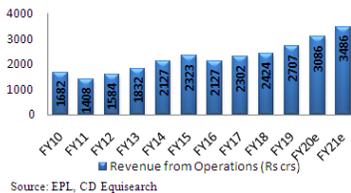
Capex

The company undertook a capital expenditure of over Rs. 300 crores in FY19. Some of the capacity expansion initiatives undertaken were setting up of a custom built factory near Guwahati, Assam which is a strategic investment, relocation of the Russia unit to create future growth opportunities beside other efficiency enhancement initiatives.

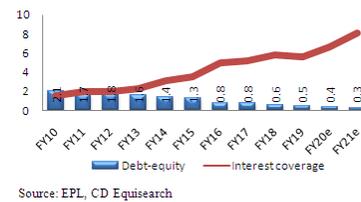
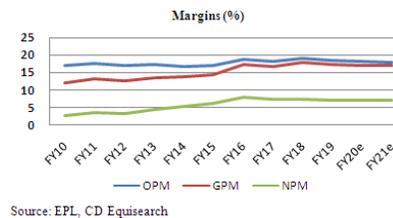
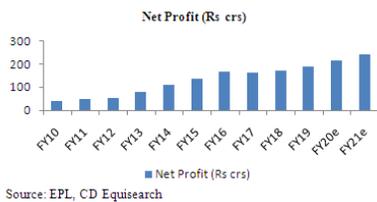
The company has allocated a budget of USD 34 million for FY20 towards various strategic projects. 70-75% of the annual capex would be deployed in growth avenues and the balance 25% would be channelized in zero defect programs, automation, setting up warehouses etc. The company does not foresee any major maintenance expenditure.

Financials & Valuations

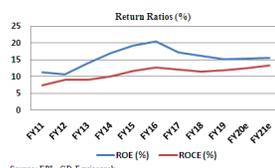
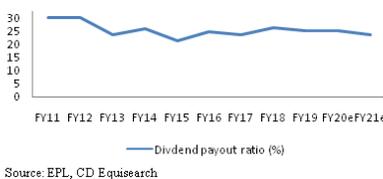
Blackstone has committed up to \$460 million to acquire a majority stake in Essel Propack. It will pay a purchase price of 134 per share to acquire a majority stake from Ashok Goel Trust. The transaction will trigger a mandatory open offer for a purchase of an additional 26% shares of the company (price fixed at 139.19/share). Blackstone's global expertise of dealing with packaging units in various parts of the world would help improve operating efficiencies and reduce lead time. Its financial muscle would also help tap future growth opportunities.



Sales growth in India was muted at 2% on account of lower offtake from key customers and lower offtake from pharma customers due to changes in regulations for pharma category. Margins were impacted due to initial expenditure towards new plants but shall normalize going forward yielding benefits from these initiatives. Much in line with the focus of EPL on the non-oral care tube market, contribution from non-oral care category rose from 41.1% in FY18 to 42.4% in FY19. Non-oral care products generally tend to generate higher revenues for comparable oral care products. Demand for laminated tubes from pharmaceuticals segment is witnessing traction due to features like tamper evidence and anti-counterfeit that provide high barrier and safety to the product.



The stock currently trades at 19.1x FY19e EPS of Rs 6.80 and 16.8x FY20e EPS of Rs 7.76. Expansion opportunities in non-oral care segment which tend to generate higher revenues and have lower packaging costs in terms of bills to customers (10% for pharma and 5-6% for cosmetics in comparison to 25% for toothpaste) provide significant headroom for growth while the flourishing e-commerce business, which is globally disrupting the supply chains of the established brands, poses a significant challenge for EPL. Weighing odds, we advise accumulating the stock with the revised target price of Rs 155 (previous target Rs 140 (adjusted for bonus)) based on 20x FY21e EPS of Rs 7.76 over a period of 9-12 months.



Cross Sectional Analysis

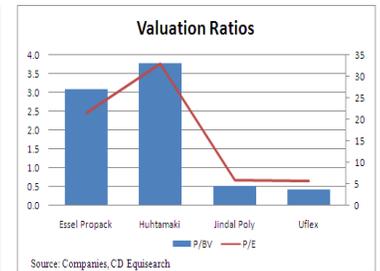
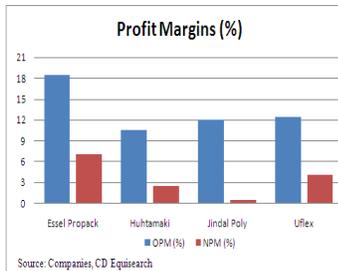
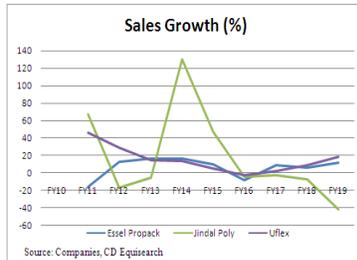
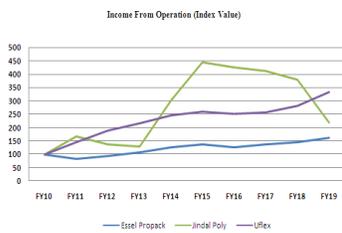
Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	Mcap/Sales	P/BV	P/E
Essel Propack	63	130	4098	2707	190	18.4	6.9	5.6	15.1	1.5	3.1	21.5
Huhtamaki	15	259	1955	2445	59	10.4	2.4	4.8	11.3	0.8	3.8	33.1
Jindal Poly	44	258	1131	3726	196	12.0	5.2	9.1	8.3	0.3	0.5	5.8
Uflex	72	243	1754	7957	314	12.4	4.0	2.9	7.6	0.2	0.4	5.6

*figures in crores; calculations on ttm basis
 Book value adjusted for goodwill and revaluation reserve wherever applicable;

Uflex posted revenue growth of 18.6% y-o-y in FY19 on the back of strong performance from the flexible packaging segment (growth of 18.4% y-o-y) which accounts for ~95% of the revenues. There was a marginal decline in operating margin from 13.1% to 12.4% for FY19 due to increase in raw materials cost. Although the PBT increased not tepidly by 17.3% y-o-y for FY19, there was only a marginal increase in PAT due to higher taxes- PAT grew by a paltry 1.5%. Long term borrowings declined sharply to Rs. 876 crores in FY19 from Rs 1055 crores in FY18 which may bring about a fall in the finance costs in the coming years.

Huhtamaki PPL acquired the business of Ajanta Packaging in June 2018 in the PS Label Space catering mainly to the FMCG sector. Despite decent increase in revenue by 11.2% for FY19, steady increase in prices of raw materials in FY19 had an adverse effect on operating margins which fell from 10.3% in FY18 to 9.5% in FY19. In terms of exports, the Company witnessed headwinds primarily due to the geopolitical unrest in Africa which is one of its largest markets. The Company's exports were close to 22% of the total sales.

During the year, the revenue of Jindal Poly Films fell by 42.2% y-o-y mainly on account of JPF Netherlands B.V which ceased to be a subsidiary. Its contribution to the consolidated turnover was 55% in 2017-18. In earlier years, the company invested in zero percent redeemable preference shares (RPS) and optionally convertible preference shares (OCPS) of Jindal India Powertech Limited (JIPL) having a fair value of 491.37 crores as on 1st April 2018. In view of remote possibility of recoverability, the company decided to write off the balance as part of exceptional loss in FY19. The total exceptional loss was Rs. 605 crores for the year.



CD Equiresearch Pvt Ltd

Financials

Consolidated Quarterly Results

Figures in Rs crs

	Q4FY19	Q4FY18	% chg	FY19	FY18	% chg
Income From Operations (net of tax)	693.67	628.40	10.4	2706.93	2423.88	11.7
Other Income	13.27	8.86	49.8	32.51	26.37	23.3
Total Income	706.94	637.26	10.9	2739.44	2450.25	11.8
Total Expenditure	563.05	512.07	10.0	2208.76	1964.00	12.5
EBITDA (other income included)	143.89	125.19	14.9	530.68	486.25	9.1
Interest	15.62	13.66	14.3	61.31	55.02	11.4
Depreciation	49.63	42.98	15.5	186.11	167.07	11.4
PBT	78.64	68.55	14.7	283.26	264.16	7.2
Tax	25.26	21.11	19.7	93.19	88.91	4.8
PAT	53.38	47.44	12.5	190.07	175.25	8.5
Minority Interest	0.88	0.68	29.4	2.86	2.61	9.6
Share of Associate	-0.12	-1.97	-93.9	5.32	-1.04	-711.5
PAT after MI and Associate	52.38	44.79	16.9	192.53	171.60	12.2
Extraordinary Item	2.07	0.00	-	2.07	-2.54	-281.5
Adjusted Net Profit	50.31	44.79	12.3	190.46	174.14	9.4
EPS(Rs)	1.60	1.42	12.1	6.04	5.54	9.1

Segment Results

Figures in Rs crs

	Q4FY19	Q4FY18	% chg	FY19	FY18	% chg
Segment Revenue						
AMESA	236.52	232.92	1.5	959.63	934.84	2.7
EAP	153.92	142.58	8.0	667.30	574.37	16.2
AMERICAS	164.86	127.54	29.3	588.88	488.46	20.6
EUROPE	164.11	141.15	16.3	585.17	509.59	14.8
Unallocated	0.23	0.20	15.0	0.83	0.77	7.8
Inter segmental elimination	25.97	15.99	62.4	94.88	61.61	54.0
Income From Operations	693.67	628.40	10.4	2706.93	2446.42	10.6
Segment EBIT						
AMESA*	29.34	38.30	-23.4	127.21	141.23	-9.9
EAP*	15.87	15.53	2.2	104.73	90.61	15.6
AMERICAS	31.09	15.02	107.0	81.80	61.12	33.8
EUROPE	10.55	5.17	104.1	17.90	12.00	49.2
Unallocated	-3.65	-0.96	180.2	-13.29	-4.01	131.4
Inter segmental elimination	-0.88	-1.59	-144.7	3.00	-4.84	-262.0
Total	84.08	74.65	12.6	315.35	305.79	3.1
Other Income	9.27	8.86	4.6	28.51	26.37	8.1
Less: Other expenses	2.14	1.30	64.6	2.34	8.00	-70.8
Add: Exceptional inc/(exp)	3.05	0.00	-	3.05	-4.98	-261.2
EBIT	94.26	82.21	14.7	344.57	319.18	8.0
Finance Cost	15.62	13.66	14.3	61.31	55.02	11.4
PBT	78.64	68.55	14.7	283.26	264.16	7.2

*AMESA - Africa, Middle East & South Asia; *EAP - East Asia Pacific

Consolidated Income Statement

Figures in Rs crs

	FY17	FY18	FY19	FY20e	FY21e
Income From Operations	2302.29	2423.88	2706.93	3085.72	3486.15
Growth (%)	8.2	5.3	11.7	14.0	13.0
Other Income	50.95	26.37	32.51	20.58	19.58
Total Income	2353.24	2450.25	2739.44	3106.30	3505.73
Total Expenditure	1880.40	1964.00	2208.76	2522.17	2859.02
EBITDA (other income included)	472.84	486.25	530.68	584.13	646.71
Interest	58.12	55.02	61.31	56.47	51.02
Depreciation	141.48	167.07	186.11	210.11	232.33
PBT	273.24	264.16	283.26	317.56	363.37
Tax	78.69	88.91	93.19	105.62	120.86
PAT	194.55	175.25	190.07	211.94	242.51
Minority Interest	5.28	2.61	2.86	3.00	3.15
Share of Associate	1.05	-1.04	5.32	5.32	5.32
PAT after MI and Associates	190.32	171.60	192.53	214.25	244.68
Extraordinary Item	27.67	-2.54	2.07	0.00	0.00
Net Profit	162.65	174.14	190.46	214.25	244.68
EPS (Rs)*	5.17	5.54	6.04	6.80	7.76

Segment Results

Figures in Rs crs

	FY17	FY18	FY19
Segment Revenue			
AMESA	980.80	934.84	959.63
EAP	552.85	574.37	667.30
AMERICAS	482.77	488.46	588.88
EUROPE	435.25	509.59	585.17
Unallocated	0.83	0.77	0.83
Inter segmental elimination	64.56	61.61	94.88
Income From Operations*	2387.94	2446.42	2706.93
Segment EBIT			
AMESA	128.40	141.23	127.21
EAP	78.08	90.61	104.73
AMERICAS	52.65	61.12	81.80
EUROPE	24.47	12.00	17.90
Unallocated	-4.15	-4.01	-13.29
Inter segmental elimination	-3.90	-4.84	3.00
Total	283.35	305.79	315.35
Other Income	35.30	26.37	28.51
Other expenses	2.94	8.00	2.34
Add: Exceptional inc/(exp)	15.65	-4.98	3.05
EBIT	331.36	319.18	344.57
Finance Cost	58.12	55.02	61.31
PBT	273.24	264.16	283.26

#EPS adjusted for bonus issue for all previous years

Consolidated Balance Sheet

Figures in Rs crs

	FY17	FY18	FY19	FY20e	FY21e
Sources of Funds					
Share Capital	31.43	31.45	63.06	63.06	63.06
Reserves	1007.56	1219.14	1324.90	1491.64	1683.10
Total Shareholders' Funds	1038.99	1250.59	1387.96	1554.70	1746.16
Minority Interest	5.72	4.30	5.16	8.16	11.32
Long Term Debt	604.96	449.22	469.29	394.29	319.29
Total Liabilities	1649.67	1704.11	1862.41	1957.15	2076.77
Application of Funds					
Gross Block	1577.90	1783.35	2063.72	2303.45	2522.18
Less: Accumulated Depreciation	398.44	599.19	756.36	966.47	1198.79
Net Block	1179.46	1184.16	1307.36	1336.98	1323.38
Capital Work in Progress	19.33	41.66	41.26	41.53	42.80
Investments	15.26	13.10	16.79	22.11	27.43
Current Assets, Loans & Advances					
Inventory	245.98	286.39	323.43	370.29	418.34
Trade Receivables	376.62	459.04	493.40	532.87	575.50
Cash and Bank	102.84	173.45	134.40	142.12	180.91
Short term loans	111.98	112.78	23.78	6.98	7.78
Other Assets	126.56	102.28	118.26	121.84	132.17
Total CA & LA	963.98	1133.94	1093.27	1174.10	1314.71
Current Liabilities	521.86	647.51	554.92	565.13	571.64
Provisions-Short term	23.11	18.15	19.10	23.79	26.78
Total Current Liabilities	544.97	665.66	574.02	588.92	598.43
Net Current Assets	419.01	468.28	519.25	585.18	716.28
Net Deferred Tax	-31.72	-30.23	-43.57	-49.85	-55.32
Net long term assets	48.33	27.14	21.32	21.20	22.18
Total Assets	1649.67	1704.11	1862.41	1957.15	2076.77

Key Financial Ratios

	FY17	FY18	FY19	FY20e	FY21e
Growth Ratios (%)					
Revenue	8.2	5.3	11.7	14.0	13.0
EBITDA	3.6	10.5	7.7	10.7	10.7
Net Profit	-3.7	7.1	9.4	12.5	14.2
EPS	-3.7	7.0	9.1	12.5	14.2
Margins (%)					
Operating Profit Margin	18.3	19.2	18.4	18.3	18.0
Gross profit Margin	16.7	17.9	17.2	17.1	17.1
Net Profit Margin	7.2	7.3	6.9	6.9	7.0
Return (%)					
ROCE	12.1	11.5	11.8	12.5	13.3
ROE	17.1	16.0	15.1	15.2	15.5
Valuations					
Market Cap/ Sales	1.6	1.6	1.4	1.3	1.2
EV/EBITDA	10.0	8.8	7.9	7.9	7.1
P/E	23.0	21.6	19.3	19.1	16.8
P/BV	3.8	3.2	2.8	2.8	2.4
Other Ratios					
Interest Coverage	5.2	5.9	5.6	6.6	8.1
Debt Equity	0.8	0.6	0.5	0.4	0.3
Current Ratio	1.6	1.6	1.8	1.8	2.0
Dividend Payout Ratio	24.0	26.3	25.4	25.5	23.8
Turnover Ratios					
Fixed Asset Turnover	2.2	2.1	2.2	2.4	2.6
Total Asset Turnover	1.5	1.5	1.6	1.7	1.8
Debtors Turnover	6.5	5.8	5.7	6.0	6.3
Inventory Turnover	8.5	7.4	7.2	7.3	7.3
Creditor Turnover	13.7	11.7	11.2	11.6	12.0
WC Ratios					
Debtor Days	56.1	62.9	64.2	60.7	58.0
Inventory Days	43.2	49.6	50.4	50.2	50.3
Creditor Days	26.7	31.3	32.6	31.4	30.4
Cash Conversion Cycle	72.5	81.2	82.0	79.5	77.9

Cumulative Financial Data

Rs crs	FY13-15	FY16-18	FY19-21e
Income from operations	6281	6854	9279
Operating profit	1062	1291	1690
EBIT	744	930	1130
PBT	492	756	961
PAT after MI & AP	323	506	649
Dividends**	77	132	158
OPM (%)	16.9	18.8	18.2
NPM (%)	5.3	7.5	6.9
Interest coverage	3.0	5.3	6.7
Debt-equity*	1.3	0.6	0.3
ROE (%)	17.2	17.5	15.1
ROCE (%)	10.6	11.6	12.4
Fixed asset turnover	2.6	2.2	2.5
Debtors turnover	6.7	5.5	6.0
Creditors turnover	12.6	10.7	11.5
Inventory turnover	8.2	7.3	7.2
Debtor days	54.1	66.3	61.0
Inventory days	44.4	50.3	50.8
Creditor days	29.0	34.0	31.6
Cash Conversion	69.5	82.6	80.3
Dividend payout ratio (%)	23.7	25.1	24.8

FY13-15 implies three year period ending fiscal 15 *as on terminal year.

*as on terminal year

**includes CDT on subsidiary dividends

Despite moderate increases in its revenue from FY13-15 to FY16-18, EPL's focus on operational efficiency has helped them improve their operating and net profit margin over that period. However, gains in margin over the FY19-21e period is not expected at this stage (see table above). Essel fully acquired EDG in FY17 in an attempt to enlarge its presence in the European tube market. Additionally, it scaled up its operations in the US and China to expand its global presence. EPL increased its profits by more than 50% in the period FY16-18 as compared to FY13-15.

EPL's continued focus on the non-oral care category – huge market size and lucrative prospects – with an aim to further expand its revenue contribution from the current 42% would doubtlessly prop up company's business growth. As a result, cumulative revenues are expected to multiply ~1.35 times in FY19-21 compared to the previous period. Its debt-equity ratio is forecast to fall further to 0.3 in FY21 from 0.6 in FY18, resulting in improvement in the interest coverage ratio from 5.3 in FY16-18 to 6.7 in FY19-21 period.

Financial Summary- US Dollar denominated

million \$	FY17	FY18	FY19	FY20e	FY21e
Equity capital	4.8	4.8	9.1	9.1	9.1
Shareholders' funds	151.0	183.1	191.7	215.6	242.8
Total debt	123.1	112.9	91.4	78.9	64.4
Net fixed assets (inc CWIP)	182.7	186.3	192.9	197.7	196.0
Investments	2.4	2.0	2.4	3.2	4.0
Net current assets	57.6	65.0	68.2	77.1	95.5
Total assets	245.2	252.8	260.3	273.9	290.6
Revenues	343.2	376.1	387.3	447.3	505.3
EBITDA	66.1	76.0	75.5	84.7	93.7
PBDT	57.4	67.5	66.7	76.5	86.3
PBT	36.3	41.6	40.1	46.0	52.7
Profit after MI & EO	24.2	27.0	27.3	31.1	35.5
EPS (\$) **	0.08	0.09	0.09	0.10	0.11
Book Value (\$)	0.48	0.58	0.61	0.68	0.77

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 68.99/\$).
All dollar denominated figures are adjusted for extraordinary items.

** EPS adjusted for bonus

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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.