

PI Industries

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR3,648 **TP: INR4,480 (+23%)** **Buy**

Operating leverage and favorable product mix drive earnings

Earnings beat our estimates

- PI recorded a healthy revenue growth in 2QFY24 (up 20% YoY), led by strong growth in the CSM business (up 22% YoY); however, the domestic business witnessed subdued demand (revenue down 2% YoY). EBITDA margin expanded 160bp YoY, led by a favorable product mix and operating leverage.
- We maintain our FY24/FY25 earnings estimates. We reiterate our **BUY** rating on the stock with a TP of INR4,480.

Strong volume growth in CSM drives revenue

- Revenue stood at INR21.2b (est. INR22.9b), up 20% YoY.
- EBITDA stood at INR5.5b (est. INR5.8b), up 28% YoY. EBITDA margins grew 160bp YoY to 26% (est. 25.3%). Gross margins stood at 46.6% (up 140bp YoY). Employee expenses rose 10bp YoY to 7.7%, while other expenses fell 30bp YoY to 12.8% of sales.
- EBITDA, after adjusting for the cost of material lost in transit (due to theft from sealed container; matter under investigation) of INR0.4b, stood at INR5.9b vs. our estimate of INR5.8b.
- Adjusted PAT was up 44% YoY at INR4.8b (est. INR4.4b), led by higher other income (INR469m vs. est. INR270m) and lower tax rate (6.2% vs. est. 17%).
- Export (CSM)/domestic agchem revenue grew 22%/declined 2% YoY to INR15.6b/INR4.8b in 2QFY24. Export revenue was driven by strong volume growth of 21% YoY, while ~1% growth came from favorable price and currency movements, and a favorable product mix. Domestic revenues were subdued due to delayed and erratic spread of monsoon, which was partially offset by better product mix.
- Pharma revenue stood at INR719m, i.e., ~3.4% of total revenue in 2QFY24, with gross margins at 60%.
- 1HFY24 revenue/EBITDA/PAT grew 22%/31%/45% YoY to INR40.3b/INR10.2b/INR8.6b.
- CFO in 1HFY24 stood at INR6.7b vs. INR3.1b in 1HFY23, while net cash stood at INR28.9b as of Jun'23. Net working capital days improved to 84 days as of Sep'23 vs. 111 days as of Sep'22.

Highlights from the management commentary

- CSM:** The management maintained its revenue growth guidance of 18-20% p.a. with continued improvement in margins and return. PI has developed a new molecule 'Dyamide', which has a market size of a couple of billion dollars.
- Pharma:** The company aims for ~INR5b of revenue within the Pharma business in FY24. It expects ~20-22% EBITDA margins from the business in the longer run.
- Domestic Agri:** The company has launched ~four innovative brands in 1HFY24. Overall, it expects to launch ~six new brands in FY24

Bloomberg	PI IN
Equity Shares (m)	152
M.Cap.(INRb)/(USD\$)	553.4 / 6.6
52-Week Range (INR)	4011 / 2869
1, 6, 12 Rel. Per (%)	7/-1/-6
12M Avg Val (INR M)	1174

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	64.9	82.9	97.4
EBITDA	15.4	20.6	24.5
PAT	12.3	16.5	18.9
EBITDA (%)	23.8	24.9	25.1
EPS (INR)	80.9	108.5	124.5
EPS Gr. (%)	45.7	34.2	14.8
BV/Sh. (INR)	474	572	685

Ratios

Net D/E	(0.4)	(0.3)	(0.4)
RoE (%)	18.5	20.8	19.8
RoCE (%)	18.5	20.9	19.7
Payout (%)	12.4	9.2	9.2

Valuations

P/E (x)	45.0	33.6	29.2
EV/EBITDA (x)	34.4	26.1	21.5
Div Yield (%)	0.3	0.3	0.3
FCF Yield (%)	2.1	(0.0)	2.8

Shareholding pattern (%)

As on	Sep-23	Jun-23	Sep-22
Promoter	46.1	46.1	46.1
DII	23.3	24.0	26.2
FII	20.0	19.2	16.8
Others	10.6	10.8	11.0

Note: FII includes depository receipts

Valuation and view

- PI has levers in place to sustain near-term growth momentum, led by: 1) consistent growth momentum in the CSM business, driven by a strong order book, the rising pace of commercialization of new molecules, and a sale ramp-up in existing molecules; 2) product launches in the domestic market (four new launches in 1HFY24 and a total six in FY24); and 3) the recent acquisition in the pharma API and CDMO segments, which is expected to be one of the key growth pillars for the company in the future. PI will be creating a differentiated position in the pharma sector by leveraging its core competencies.
- We expect a revenue/EBIDTA/adj. PAT CAGR of 22%/26%/24% over FY23-25.
- We maintain our FY24/FY25 EPS estimates and reiterate our **BUY** rating on the stock, valuing it at 36x FY25E EPS to arrive at a TP of INR4,480.

Quarterly Earning Model

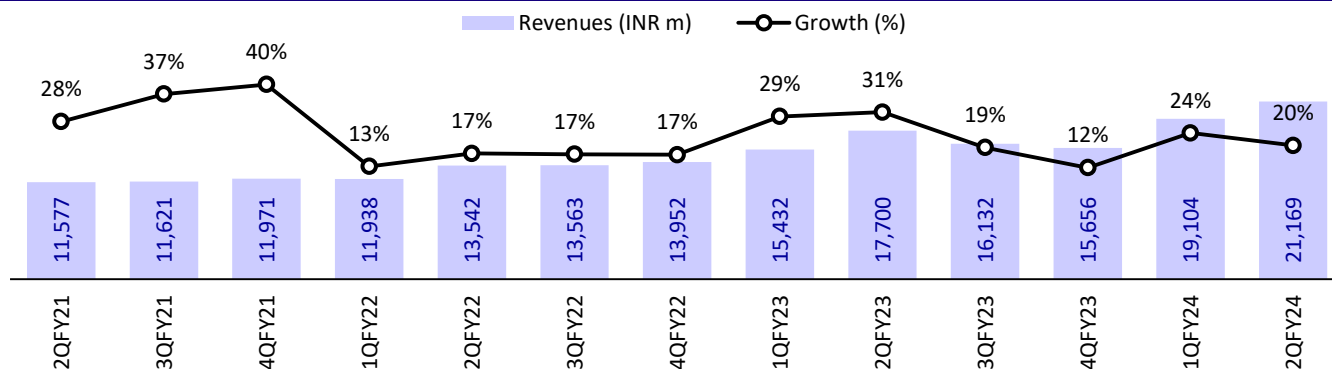
Y/E March	FY23				FY24E				(INRm)			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY23	FY24E	FY24E	Var
Net Sales	15,432	17,700	16,132	15,656	19,104	21,169	21,233	21,415	64,920	82,921	22,869	-7
YoY Change (%)	29.3	30.7	18.9	12.2	23.8	19.6	31.6	36.8	22.5	27.7	29.2	
Total Expenditure	11,976	13,381	11,981	12,228	14,426	15,655	15,820	16,389	49,566	62,290	17,072	
EBITDA	3,456	4,319	4,151	3,428	4,678	5,514	5,413	5,026	15,354	20,631	5,797	-5
Margins (%)	22.4	24.4	25.7	21.9	24.5	26.0	25.5	23.5	23.7	24.9	25.3	
Depreciation	560	560	567	577	697	803	850	900	2,264	3,250	710	
Interest	36	111	89	33	43	78	50	30	269	201	30	
Other Income	241	317	502	495	469	469	420	420	1,555	1,778	270	
PBT before EO expense	3,101	3,965	3,997	3,313	4,407	5,102	4,933	4,516	14,376	18,958	5,327	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	3,101	3,965	3,997	3,313	4,407	5,102	4,933	4,516	14,376	18,958	5,327	
Tax	516	629	484	519	625	317	839	768	2,148	2,548	906	
Rate (%)	16.6	15.9	12.1	15.7	14.2	6.2	17.0	17.0	14.9	13.4	17.0	
Minority Interest & P/L of Asso. Cos.	-39	-12	-5	-12	-47	-20	-6	-13	-68	-86	-13	
Reported PAT	2,624	3,348	3,518	2,806	3,829	4,805	4,100	3,761	12,296	16,495	4,434	
Adj PAT	2,624	3,348	3,518	2,806	3,829	4,805	4,100	3,761	12,296	16,495	4,434	8
YoY Change (%)	40.2	45.8	58.0	37.3	45.9	43.5	16.5	34.0	45.7	34.2	32.4	
Margins (%)	17.0	18.9	21.8	17.9	20.0	22.7	19.3	17.6	18.9	19.9	19.4	

Key Performance Indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
CSM Revenue (INRm)	11,421	12,783	13,286	12,814	15,187	15,610	16,417	15,932	50,304	63,146
% Change	41.5	28.7	23.4	15.0	33.0	22.1	23.6	24.3	26.1	25.5
Domestic Formulation (INRm)	4,011	4,917	2,846	2,842	3,474	4,840	3,216	3,183	14,616	14,713
% Change	3.6	36.2	1.6	1.1	-13.4	-1.6	13.0	12.0	11.7	0.7
Cost Break-up										
RM Cost (% of sales)	56.2	54.8	52.8	55.2	53.5	53.4	53.3	54.5	54.7	53.7
Staff Cost (% of sales)	8.1	7.6	8.3	8.6	9.1	7.7	8.0	8.0	8.1	8.2
Other Cost (% of sales)	13.4	13.2	13.2	14.3	12.9	12.8	13.2	14.0	13.5	13.2
Gross Margins (%)	43.8	45.2	47.2	44.8	46.5	46.6	46.7	45.5	45.3	46.3
EBITDA Margins (%)	22.4	24.4	25.7	21.9	24.5	26.0	25.5	23.5	23.7	24.9
EBIT Margins (%)	18.8	21.2	22.2	18.2	20.8	22.3	21.5	19.3	20.2	21.0

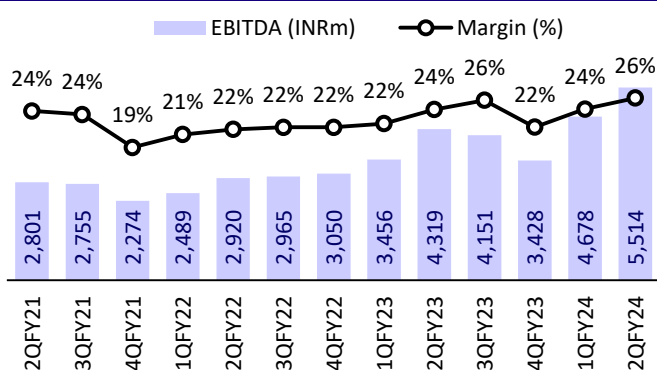
Key exhibits

Exhibit 1: Revenue growth trend



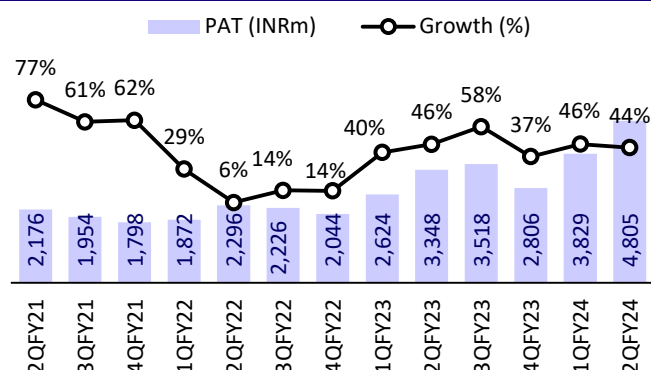
Source: Company, MOFSL

Exhibit 2: EBITDA trend



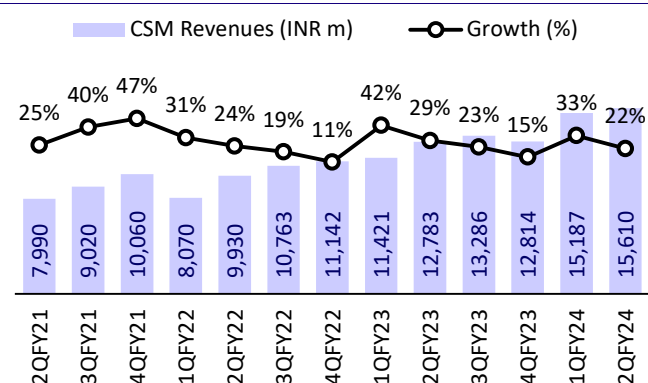
Source: Company, MOFSL

Exhibit 3: PAT trend



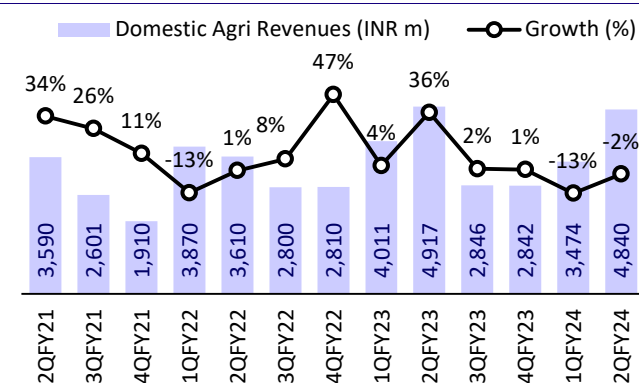
Source: Company, MOFSL

Exhibit 4: CSM revenue trend



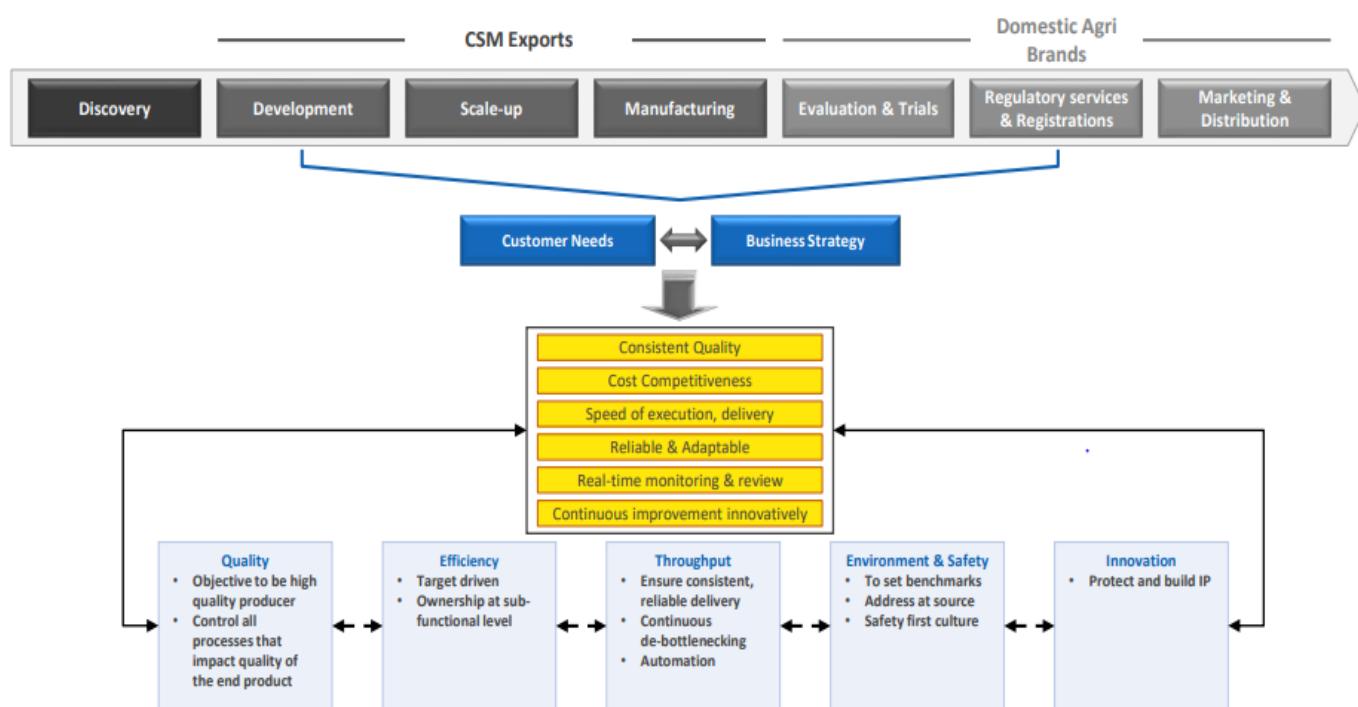
Source: Company, MOFSL

Exhibit 5: Revenue trend in Agri Inputs



Source: Company, MOFSL

Exhibit 6: Presence across the agchem value chain



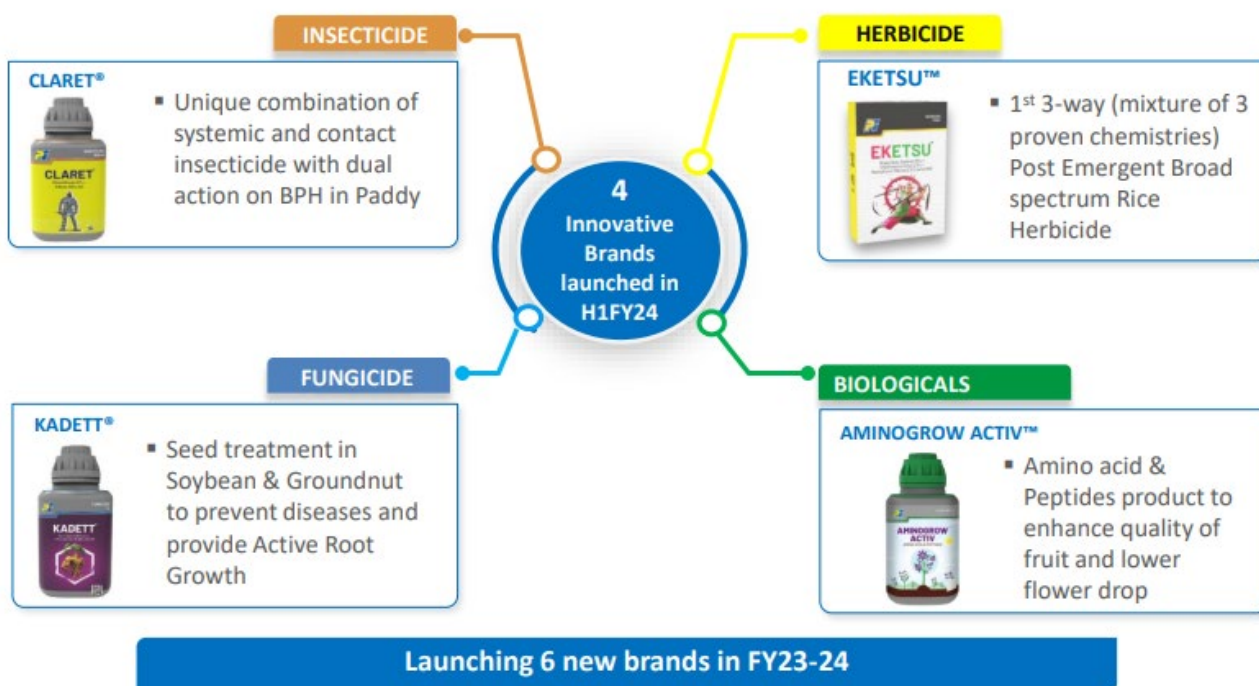
Source: Company, MOFSL

Exhibit 7: Robust product portfolio for all major crops



Source: Company, MOFSL

Exhibit 8: Continued momentum in new brand launches in the domestic market



Source: Company, MOFSL



Highlights from management interaction

Operational Overview

- Overall, the revenue growth was driven by ~22% YoY growth in exports (CSM).
- Gross Margin stood at 47% (up 135bp YoY), led by better product mix.
- Increase in overhead cost was mainly attributable to the newly acquired Pharma businesses and is not comparable on a YoY basis.

Exports (CSM)

- The company is witnessing continued scale up in demand for the existing and newly commercialized products.
- It continues to maintain the growth guidance of ~18-20% with continued improvement in margins and return. Volume growth will drive the overall growth within the segment.
- Capacity expansion plans are as per schedule. The company will incur a capex of ~INR8b for expansion within the CSM segment.
- The company is in talks with a major global player for its new molecule 'Dyamide'. It has a market size of a couple of billion dollars.
- Brazil has seen a major challenge in the inventory and pricing for generic products.
- The company had a solid R&D pipeline of a diversified portfolio of agchem, electronic, imaging, and other specialty chemicals. It expects to commercialize ~4-5 products every year.

Domestic Agri inputs

- The domestic business was subdued with revenue declining ~2% YoY, on the back of delayed and erratic spread of monsoon.

- However, the favorable product mix and improved working capital management helped contain the financial impact.
- The company launched ~four innovative brands in 1HFY24 (an insecticide, herbicide, fungicide, and biological product). Overall, it expects to launch ~six new brands in FY24.

Pharma:

- Revenue stood at INR719m, with INR 651m generated from 'Archimica S.p.A' and INR 68m from 'Therachem'.
- There was a one-time IND AS adjustment in Pharma as one of the companies acquired by the company was following a different accounting policy.
- Currently, the company is upgrading its infrastructure and building a new Kilo Lab at its Lodi facility in Italy.
- It successfully made its debut at the CPHI Barcelona exhibition in October 2023. The event is expected to contribute to the buildup of the business pipeline moving forward.
- The company is currently in the process of integrating CRO (Contract Research Organization), CDMO (Contract Development and Manufacturing Organization), and API (Active Pharmaceutical Ingredient) platforms to establish a distinctive presence in the pharmaceutical industry.

Capex and capacity utilization

- The total capex for 1HFY24 stood at INR7.6b (including the Pharma acquisitions of ~INR5b). Excluding the same, capex stood at ~INR2.6b (vs. ~INR1.2b in 1HFY23).
- The company continued its focus on driving higher capacity utilization by improving the throughput.

Loss in transit

- The company has lost shipment in transit worth ~INR401m due to a theft from the sealed containers. A few other chemical companies were also affected by this theft.
- The authorities already mapped some of the culprits and some of the materials have already been recovered. However, the matter is still under investigation.
- The company has accounted for the material lost in the financials. Adjusting for this, the margins for the quarter have expanded significantly.

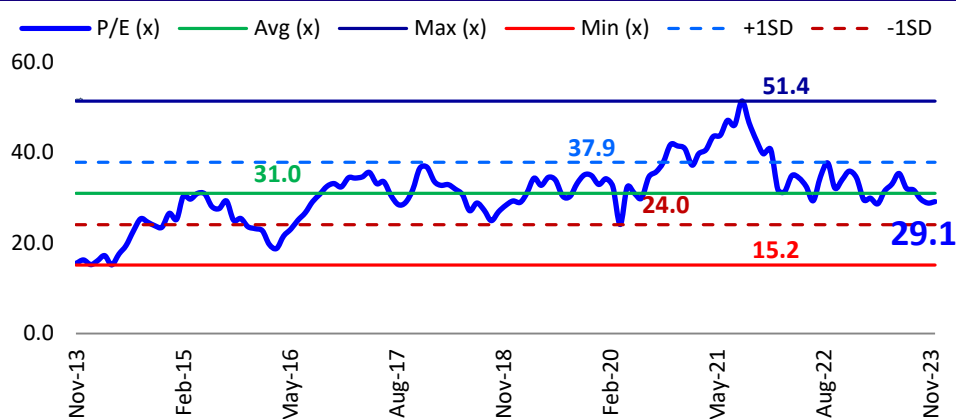
Others

- Evaluation of opportunities for inorganic growth continues in multiple strategic areas continues
- Ongoing discussions are being held with global innovators regarding potential development partnerships for promising R&D leads
- The company has signed a strategic alliance with 'Koppert' in Sep'23 to foster advancements in sustainable agriculture practices and jointly innovate in the domain of agriculture biologicals.

Valuation and view

- PI has levers in place to sustain near-term growth momentum, led by: 1) consistent growth momentum in the CSM business, driven by a strong order book, the rising pace of commercialization of new molecules, and a sale ramp-up in existing molecules; 2) product launches in the domestic market (four new launch in 1HFY24 and a total six in FY24); and 3) the recent acquisition in the pharma API and CDMO segments, which is expected to be one of the key growth pillars for the company in the future. PI will be creating a differentiated position in the pharma sector by leveraging its core competencies.
- We expect a revenue/EBITDA/adj. PAT CAGR of 22%/26%/24% over FY23-25.
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Exhibit 9: One-year forward P/E (x)



Source: MOFSL

Exhibit 10: Change in estimates

Earnings Change (INR m)	Old		New		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	85,211	98,706	82,921	97,371	-3%	-1%
EBITDA	20,822	24,410	20,631	24,455	-1%	0%
Adj. PAT	16,057	19,272	16,495	18,928	3%	-2%

Source: MOFSL

Financials and valuations

Income Statement (Consolidated)								(INRm)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Gross Revenue	23,833	23,087	28,409	33,665	45,770	52,995	64,920	82,921	97,371
Excise Duty	1,065	316	0	0	0	0	0	0	0
Net Revenue	22,768	22,771	28,409	33,665	45,770	52,995	64,920	82,921	97,371
Change (%)	8.6	0.0	24.8	18.5	36.0	15.8	22.5	27.7	17.4
Cost of Materials Consumed	11,632	11,690	15,502	18,474	25,712	29,228	35,527	44,517	53,165
% of Sales	51.1	51.3	54.6	54.9	56.2	55.2	54.7	53.7	54.6
Personnel Expenses	2,226	2,432	2,647	3,209	4,169	4,804	5,266	6,793	7,400
% of Sales	9.8	10.7	9.3	9.5	9.1	9.1	8.1	8.2	7.6
Other Expenses	3,378	3,715	4,496	4,804	5,767	7,539	8,706	10,980	12,351
% of Sales	14.8	16.3	15.8	14.3	12.6	14.2	13.4	13.2	12.7
Total Expenditure	17,236	17,837	22,645	26,487	35,648	41,571	49,499	62,290	72,916
% of Sales	75.7	78.3	79.7	78.7	77.9	78.4	76.2	75.1	74.9
EBITDA	5,533	4,934	5,764	7,178	10,122	11,424	15,421	20,631	24,455
Margin (%)	24.3	21.7	20.3	21.3	22.1	21.6	23.8	24.9	25.1
Depreciation	730	830	930	1,367	1,748	2,018	2,265	3,250	3,675
EBIT	4,802	4,104	4,834	5,811	8,374	9,406	13,156	17,381	20,780
Int. and Finance Charges	72	53	50	170	282	128	371	201	30
Other Income	366	603	595	489	1,249	1,014	1,590	1,778	1,947
PBT bef. EO Exp.	5,096	4,653	5,379	6,130	9,341	10,292	14,375	18,958	22,697
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	5,096	4,653	5,379	6,130	9,341	10,292	14,375	18,958	22,697
Current Tax	1,035	1,001	1,176	1,259	1,753	1,950	2,592	2,548	3,858
Deferred Tax	-534	-22	101	313	249	-60	-444	0	0
Tax Rate (%)	9.8	21.0	23.7	25.6	21.4	18.4	14.9	13.4	17.0
Less: MI/Profit & Loss of associates	1	-2	0	-8	-44	-36	-68	-86	-90
Reported PAT	4,594	3,676	4,102	4,566	7,383	8,438	12,295	16,495	18,928
Adjusted PAT	4,594	3,676	4,102	4,566	7,383	8,438	12,295	16,495	18,928
Change (%)	47.5	-20.0	11.6	11.3	61.7	14.3	45.7	34.2	14.8
Margin (%)	20.2	16.1	14.4	13.6	16.1	15.9	18.9	19.9	19.4

Balance Sheet (Consolidated)								(INRm)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	138	138	138	138	152.0	152.0	152.0	152.0	152.0
Preference Capital	0	0	0	0	0	0	0	0	0
Total Reserves	16,134	19,111	22,716	26,053	53,272	61,052	71,833	86,808	1,03,989
Net Worth	16,272	19,248	22,854	26,191	53,424	61,204	71,985	86,960	1,04,141
Deferred Liabilities	0	0	0	102	796	875	213	213	213
Total Loans	1,198	834	99	5,077	3,279	2,678	0	0	0
Capital Employed	17,470	20,082	22,953	31,370	57,499	64,757	72,198	87,173	1,04,354
Gross Block	12,942	14,298	17,109	24,366	28,921	34,082	37,877	46,505	51,505
Less: Accum. Deprn.	3,492	4,322	5,252	6,619	8,367	10,385	12,650	15,900	19,575
Net Fixed Assets	9,450	9,977	11,857	17,747	20,554	23,697	25,227	30,606	31,930
Goodwill on Consolidation	0	0	0	0	0	0	0	3,891	4,233
Capital WIP	773	899	1,828	1,828	2,875	1,145	1,324	5,000	3,500
Current Investments	824	1,595	1,119	1,325	8,517	8,547	9,843	10,843	11,843
Total Investments	833	1,607	1,291	1,504	8,724	8,995	10,156	11,156	12,156
Curr. Assets, Loans&Adv.	11,760	13,515	16,431	21,169	37,866	44,074	48,090	53,517	72,646
Inventory	4,320	4,520	5,357	7,989	10,528	14,234	13,976	17,947	21,075
Account Receivables	4,237	5,268	6,618	6,465	7,035	8,687	7,720	12,495	14,672
Cash and Bank Balance	1,326	1,307	892	1,342	14,757	14,102	22,429	15,612	28,135
Loans and Advances	1,877	2,420	3,564	5,373	5,546	7,051	3,965	7,463	8,763
Curr. Liability & Prov.	5,544	6,182	8,595	10,878	12,520	13,154	12,599	16,996	20,111
Account Payables	2,878	3,687	5,130	5,909	7,960	9,242	8,380	10,977	13,109
Other Current Liabilities	2,350	2,155	3,049	4,421	4,008	3,555	3,838	5,639	6,621
Provisions	316	340	416	548	552	357	381	381	381
Net Current Assets	6,216	7,333	7,836	10,291	25,346	30,920	35,491	36,520	52,534
Deferred Tax assets	198	267	141	0	0	0	0	0	0
Appl. of Funds	17,470	20,082	22,953	31,370	57,499	64,757	72,198	87,173	1,04,354

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	30.2	24.2	27.0	30.0	48.6	55.5	80.9	108.5	124.5
Cash EPS	35.0	29.6	33.1	39.0	60.1	68.8	95.8	129.9	148.7
BV/Share	107.1	126.6	150.4	172.3	351.5	402.7	473.6	572.1	685.1
DPS	3.6	5.0	3.6	3.6	5.0	5.0	10.0	10.0	11.5
Payout (%)	14.6	25.1	16.4	14.7	10.3	9.0	12.4	9.2	9.2
Valuation (x)									
P/E	120.5	150.5	134.9	121.2	75.0	65.6	45.0	33.6	29.2
Cash P/E	103.9	122.8	110.0	93.3	60.6	52.9	38.0	28.0	24.5
P/BV	34.0	28.8	24.2	21.1	10.4	9.0	7.7	6.4	5.3
EV/Sales	24.3	24.3	19.5	16.6	11.8	10.2	8.2	6.5	5.4
EV/EBITDA	100.0	112.1	95.9	77.6	53.5	47.4	34.4	26.1	21.5
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3
FCF per share	14.4	10.9	1.7	2.1	18.9	12.7	77.3	-1.3	102.9
Return Ratios (%)									
EBITDA Margins (%)	24.3	21.7	20.3	21.3	22.1	21.6	23.8	24.9	25.1
Net Profit Margins (%)	20.2	16.1	14.4	13.6	16.1	15.9	18.9	19.9	19.4
RoE	32.8	20.7	19.5	18.6	18.5	14.7	18.5	20.8	19.8
RoCE	30.4	19.8	19.2	17.3	17.2	14.1	18.5	20.9	19.7
RoIC	32.3	21.0	20.9	18.9	22.8	21.4	28.4	32.1	29.7
Working Capital Ratios									
Accum. Dep/Gross Block (x)	0	0	0	0	0	0	0	0	0
Fixed Asset Turnover (x)	1.8	1.6	1.7	1.4	1.6	1.6	1.7	1.8	2
Asset Turnover (x)	1.3	1.1	1.2	1.1	0.8	0.8	0.9	1.0	0.9
Inventory (Days)	69	72	69	87	84	98	79	79	79
Debtor (Days)	65	83	85	70	56	60	43	55	55
Creditor (Days)	90	115	121	117	113	115	86	90	90
Working Cap. Turnover (Days)	78	97	89	97	84	116	73	92	91
Leverage Ratio (x)									
Current Ratio	2.1	2.2	1.9	1.9	3.0	3.4	3.8	3.1	3.6
Interest Cover Ratio	67	77	97	34	30	73	35	86	693
Debt/Equity	0.1	0.04	0.00	0.2	0.1	0.0	0.0	0.0	0.0

Cash Flow Statement (Consolidated)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INRm)									
OP/(Loss) before Tax	5,095	4,655	5,379	6,138	9,385	10,328	14,443	18,958	22,697
Depreciation	730	830	930	1,367	1,748	2,018	2,265	3,250	3,675
Interest & Finance Charges	72	53	50	170	282	128	371	201	30
Direct Taxes Paid	-1,212	-963	-1,183	-1,048	-1,647	-1,751	-2,558	-2,548	-3,858
(Inc)/Dec in WC	-1,234	-1,045	-1,503	255	-1,303	-5,276	2,050	-7,847	-3,491
CF from Operations	3,451	3,530	3,673	6,882	8,465	5,447	16,571	12,014	19,053
Others	-63	-336	235	99	-1,216	-160	-1,557	86	90
CF from Operating incl EO	3,388	3,194	3,908	6,981	7,249	5,287	15,014	12,100	19,143
(inc)/dec in FA	-1,413	-1,696	-3,677	-6,693	-4,375	-3,362	-3,263	-12,305	-3,500
Free Cash Flow	1,976	1,498	231	288	2,874	1,925	11,751	-205	15,643
(Pur)/Sale of Investments	-1,090	-375	427	1,014	-5,516	39	-941	-4,891	-1,342
Others	151	266	34	-4,170	-14,413	2,219	-758	0	0
CF from Investments	-2,351	-1,805	-3,216	-9,849	-24,304	-1,104	-4,962	-17,196	-4,842
Issue of Shares	0	0	0	0	19,736	0	0	0	0
Inc/(Dec) in Debt	-248	-365	-399	4,562	-1,786	-720	-2,669	0	0
Interest Paid	-72	-53	-50	-179	-244	-85	-342	-201	-30
Dividend Paid	-248	-662	-831	-748	-607	-758	-1,137	-1,520	-1,748
Others	297	-329	173	-317	13,371	-3,275	2,423	0	0
CF from Fin. Activity	-271	-1,409	-1,107	3,318	30,470	-4,838	-1,725	-1,721	-1,778
Inc/Dec of Cash	766	-20	-415	450	13,415	-655	8,327	-6,817	12,523
Opening Balance	560	1,326	1,307	892	1,342	14,757	14,102	22,429	15,612
Closing Balance	1,326	1,307	892	1,342	14,757	14,102	22,429	15,612	28,135

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NOTES

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BUY	>=15%
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UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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