INSTITUTIONAL RESEARCH

HSIE Results Daily

Contents

Results Reviews

- **Dr Reddy's Laboratories:** EBITDA grew (14% YoY) as +13% YoY sales growth (-3% QoQ US, +5% YoY in EU, +9% YoY EMs, and +34% YoY in RoW; India declined 12% YoY; adjusted growth was at 11%), steady gross margin (+65 bps YoY) and muted staff cost were offset by higher R&D/SG&A (+28/+22% YoY). DRRD expects to sustain growth in the US over the next few years with steady traction in gRevlimid and new launches (20+ launches p.a. for the next few years). The company expects India to see steady growth in FY25, led by new launches, scale-up in key therapies, and in-licensing opportunities. Guides for higher R&D at 8.5-9% (vs 8.2% in FY24) towards its differentiated assets (NCEs, biosimilars, OTC, peptides, specialty); monetization to take 2-3 years. JV with Nestle would materialise in the next 2-3 years. We have raised EPS estimates for FY25/26E by 10%/ 8% to factor in higher-than-expected sales from gRevlimid, which will result in a higher margin. However, the base business (ex-gRevlimid) remains under pressure with increasing competition in key products in the US market and market share loss in leading therapies in India business. We have rolled forward TP to INR 6,050 (25x FY26E EPS + INR 200/sh from gRevlimid vs 24x Dec'25E + INR 150/sh earlier). Maintain REDUCE.
- **Lupin:** EBITDA growth (+65% YoY) was led by 12% YoY sales growth (US: -1% QoQ, India +8% YoY, EMEA: +17% YoY and +8% RoW), higher GM (+778 bps YoY), but it was partly offset by higher costs (staff/R&D/SG&A up +16/ 40/ 7% YoY). LPC expects the US business to see single-digit growth in FY25 (to sustain USD 200+ mn per quarter sales rate) on traction in gSpiriva (targets ~35-40% market share in FY25) and new launches (opthal, injectable, respiratory, etc.). It expects its India business to see double-digit growth, led by the traction in key therapies and new launches as well as traction from biosimilar launches. It expects to achieve an EBITDA margin of ~20% in FY25 and expand 200-300 bps over the next two years. Factoring in FY24 performance and margin guidance, we raise our EPS by ~3/4% for FY25/26E and roll forward TP to INR 1,600 (26x FY26E) vs. INR 1,470 (26x Dec'25E). We maintain REDUCE, as we believe that growth visibility (led by growth in the US—gSpiriva & new launches and India—new launches & traction in key therapies) and improving margin (led by sales growth, better mix, and cost optimization) are already priced in. We see limited upside, given rich valuations.
- **IRB Infra:** IRB reported revenue/EBITDA/APAT of INR 20.6/8.8/1.8bn, ahead of our estimates by 14.5/11/28.5% resp. EBITDA margin came below our estimate of 44.5% at 43.2% (-366/-100bps YoY/QoQ), primarily due to the mix. The OB as of Mar'24 stood at INR 348bn, with EPC contributing 16.3% (INR 57bn) and O&M contributing 83.7% (INR 291bn). The consolidated gross debt as of Mar'24 stood at INR 147bn vs. INR 133.7bn as of Dec'23. On recently proposed guidelines by the RBI, IRB doesn't see any further impact on its financials as banks are already charging higher interests for under-construction projects by 60-70bps vs operational projects. The company expects considerable orders worth INR 2trn over the next 12-18 months in BOT toll and it expects to win 250-300bn (~15% market share). We have recalibrated our EPS estimates higher to factor in better growth and resultant improvement in margins owing to the mix. Given the improving outlook on

HSIE Research Team
hdfcsec-research@hdfcsec.com

ordering, better-than-expected toll growth and likely interest rate cuts, we increase our SOTP-based target price to INR 72/sh. Owing to the limited upside on CMP, we maintain our ADD rating on the stock.

- **Max Financial:** MAXL posted a steep decline in FY24 VNB margins (-465bps) at 26.5%; although overall APE growth printed strong (+19%), absolute VNB was flat, driven by deterioration in product mix towards ULIPs. While AXSB capital infusion is complete, we believe there is limited scope for incremental wallet share gains from current levels (70%). We believe that the company's VNB margins are most sensitive to recent regulatory developments on higher surrender values for NPS business. We raise our VNB estimates by 11% for FY25E to factor in higher APE growth (~16%) - we build in APE/VNB CAGRs of 15/13% and operating RoEVs of 19% over FY25E-26E. We maintain ADD with a TP of INR1,130 (1.5x Mar-26E EV post-holding company discount).

- **Kansai Nerolac:** Kansai Nerolac's (KNPL) standalone revenue grew 3.5% to INR 16.62bn (HSIE: INR 16.1bn). KNPL registered a double-digit volume/single-digit value growth in the decorative segment. Within the industrial segment, the auto as well as non-auto segment performed well. Premium salience across the portfolio continues to increase. GM/EBITDAM expanded 319/128bps YoY to 34.8/10.8% (HSIE: 36.2/13.9%). We increase our EPS estimates by 4/3% courtesy increase in cash balance resulting in higher other income. We maintain a REDUCE rating for KNPL with a DCF-based TP of INR300/sh (implying 28x FY26E P/E).

- **Sonata Software:** Sonata posted a weak quarter with a revenue decline of 2.2% QoQ CC and the margin fall of ~350 bps QoQ was much higher than anticipated. The drop in revenue was led by the Quant seasonality (large US BFSI client), delay in large deal closure (healthcare vertical) and delay in deal ramp-up. The revenue decline came after eight quarters of strong organic performance. We expect IITS to be back on the growth trajectory based on a healthy deal pipeline and strong book-to-bill of 1.22 (TCV of USD 100mn in Q4). The top hi-tech account growth has recovered, led by dynamics. The large deal pipeline is strong with ~67 large deals under pursuit and ~52% of the large deals are with Fortune 500 clients. The investments made in creating the large deal pipeline and lower revenue led to a drop in margins. The management indicated that the macro environment remains challenging, large-deal decision-making is slow, and growth could be challenging in the near term. However, they have maintained their aspiration to reach a USD 500 mn run rate for IITS in the next two years. The IITS margin range is 20-22%. The investments in Microsoft Fabric and Gen Ai capabilities will pave the way for future growth. We cut our revenue/EPS estimate for FY26 by 4.3/5.5% and P/E multiple to 23x to incorporate near-term challenges. We maintain our ADD rating with a target price of INR 610, based on 23x FY26E EPS. The stock is trading at a P/E of 30/24x FY25/26E EPS.

- **Navin Fluorine International:** We retain a BUY on Navin Fluorine International Ltd (NFIL), with a target price of INR 3,981 on the back of (1) earnings visibility, given long-term contracts; (2) tilt in sales mix towards high-margin high-value business; and (3) capacity expansion-led growth. EBITDA/APAT were 39/61% above our estimates, owing to a 20% increase in revenue, offset by higher-than-expected raw material costs.

- **Happiest Minds Technologies:** Happiest Minds (HAPPSTMN) delivered an in-line quarter on growth, but importantly pointed to an accelerated organic growth trajectory supported by its new org structure, ODC takeover of EdTech customer, traction in GenAI business unit, and synergy opportunity from Pure Software acquisition. Recent growth has been driven by the India geography (higher mix than peers) and offset by weakness in the EdTech vertical (still a high revenue mix). The current scale of the business, the distinction in quality and the disproportionate impact from potential recovery in discretionary services in the sector can keep valuation higher than peers for HAPPSTMN. Maintain ADD on HAPPSTMN with a TP of INR 875, based on 36x FY26E and 24% EPS CAGR over FY24-26E. High exposure to the EdTech vertical remains a risk and integration of Pure Software is a key monitorable.

Dr Reddy's Laboratories

In-line Q: Revlimid traction stays, base EPS under check

EBITDA grew (14% YoY) as +13% YoY sales growth (-3% QoQ US, +5% YoY in EU, +9% YoY EMs, and +34% YoY in RoW; India declined 12% YoY; adjusted growth was at 11%), steady gross margin (+65 bps YoY) and muted staff cost were offset by higher R&D/SG&A (+28/+22% YoY). DRRD expects to sustain growth in the US over the next few years with steady traction in gRevlimid and new launches (20+ launches p.a. for the next few years). The company expects India to see steady growth in FY25, led by new launches, scale-up in key therapies, and in-licensing opportunities. Guides for higher R&D at 8.5-9% (vs 8.2% in FY24) towards its differentiated assets (NCEs, biosimilars, OTC, peptides, specialty); monetization to take 2-3 years. JV with Nestle would materialise in the next 2-3 years. We have raised EPS estimates for FY25/26E by 10%/ 8% to factor in higher-than-expected sales from gRevlimid, which will result in a higher margin. However, the base business (ex-gRevlimid) remains under pressure with increasing competition in key products in the US market and market share loss in leading therapies in India business. We have rolled forward TP to INR 6,050 (25x FY26E EPS + INR 200/sh from gRevlimid vs 24x Dec'25E + INR 150/sh earlier). Maintain REDUCE.

- **Q3FY24 highlight—sales were mixed bag**: Sales grew 13% YoY to INR 71.1 bn as US revenues (~46% of sales) declined 3% QoQ to USD 391 mn due to decrease in base business volumes and price erosion in select products. India (~16%) sales were down 12% YoY to INR 11.26 bn; adjusted for brand divestment income in Q4FY23 (of INR 2.6 bn), grew 11% YoY. EM (~17%) revenues were up 9% YoY as 34% YoY growth in RoW markets was offset by a 4% YoY decline in Russia/CIS business. EU (~7%) revenue grew 5% YoY and PSAI (~12%) grew 6% YoY.
- **EBITDA growth steady gross margin:** Gross margin was at 70.6% (+65 bps YoY), led by improvement in product mix and productivity cost savings. Muted staff cost was offset by higher R&D spend (+28%) and SG&A (+22%) leading to EBITDA of INR 18.14 bn (14% YoY) and the margin was at 25.5% (+35 bps YoY). Higher other income (+43% YoY), interest cost (+68%), depreciation (+17%) and lower tax outgo (at 18.4% vs 27.8% in Q4FY23) led to a reported PAT of INR 13.09 bn (+36% YoY). Core PAT (adjusted for one-offs) was up 56% YoY at INR 12.3 bn (-6% QoQ).
- **Key takeaways from con call:** DRRD expects to sustain growth momentum in the US business (gRevliimid traction to sustain till Jan'26) led by new launch visibility. Expects 20+ launches in p.a. for the next few years. Expects growth recovery in India for FY25 led by in-licensing/partnership, focus on existing portfolio, and new launches. In Apr'24, it entered a definitive agreement in a JV (DRRD: Nestle at 51:49) for nutraceutical/an OTC product; DRRD expects to give the initial 2-3 years for investment for JV and registration of Nestle's global products in India; materialise JV post-FY26/27. R&D guidance of 8.5-9% (20% in biosimilars, 60% in small molecules, 20% in APIs/ technology) for investment towards long-term differentiated assets in global markets. It expects to respond to CRL on its biosimilar Rituximab soon. In FY24, capex was at INR 15.2 bn towards capacity expansion—drug substance for biosimilars, injectables APIs, Aurigene.

Quarterly financial summary

(INR mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	71,138	63,152	13	72,368	(2)	2,15,452	2,46,697	2,80,111	2,99,206	3,08,549
EBITDA	18,139	15,879	14	20,341	(11)	46,981	64,189	79,334	81,983	80,223
APAT	12,303	7,864	56	13,025	(6)	24,214	35,229	51,323	52,712	51,253
EPS (INR)	73.8	47.2	56	78.2	(6)	145.2	211.2	307.7	316.0	307.3
P/E (x)						43.1	29.6	20.3	19.8	20.4
EV/EBITDA (x)						22.0	15.5	12.6	11.7	11.5
RoCE (%)						18	26	26	21	18

Source: Company, HSIE Research, PAT adjusted for one-offs

REDUCE

CMP *(as on 7 May 2024)*	INR 6,259
Target Price	INR 6,050
NIFTY	22,303

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 5650	INR 6050
EPS %	FY25E	FY26E
	9.5	8.1

KEY STOCK DATA	
Bloomberg code	DRRD IN
No. of Shares (mn)	167
MCap (INR bn) / ($ mn)	1,044/12,500
6m avg traded value (INR mn)	2,497
52 Week high / low	INR 6,506/4,383

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	1.3	15.8	26.6
Relative (%)	(0.6)	2.6	6.2

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	26.65	26.65
FIs & Local MFs	18.65	18.31
FPIs	43.96	44.49
Public & Others	10.74	10.55
Pledged Shares	-	-

Source: BSE

Mehul Sheth
mehul.sheth@hdfcsec.com
+91-22-6171-7349

Lupin

Steady Q; growth/margin triggers are factored in

EBITDA growth (+65% YoY) was led by 12% YoY sales growth (US: -1% QoQ, India +8% YoY, EMEA: +17% YoY and +8% RoW), higher GM (+778 bps YoY), but it was partly offset by higher costs (staff/R&D/SG&A up +16/ 40/ 7% YoY). LPC expects the US business to see single-digit growth in FY25 (to sustain USD 200+ mn per quarter sales rate) on traction in gSpiriva (targets ~35-40% market share in FY25) and new launches (opthal, injectable, respiratory, etc.). It expects its India business to see double-digit growth, led by the traction in key therapies and new launches as well as traction from biosimilar launches. It expects to achieve an EBITDA margin of ~20% in FY25 and expand 200-300 bps over the next two years. Factoring in FY24 performance and margin guidance, we raise our EPS by ~3/4% for FY25/26E and roll forward TP to INR 1,600 (26x FY26E) vs. INR 1,470 (26x Dec'25E). We maintain REDUCE, as we believe that growth visibility (led by growth in the US—gSpiriva & new launches and India—new launches & traction in key therapies) and improving margin (led by sales growth, better mix, and cost optimization) are already priced in. We see limited upside, given rich valuations.

- **Q3FY24 highlight – steady sales growth**: Sales were up 12% YoY at INR 49.6 bn (-5% QoQ) as US revenue (39% of sales) saw -1% QoQ to USD 209 mn (+19% YoY) as steady traction in gSpriva and other inhalation products was partly offset by competition in other key products (gPrezista) and tapering seasonal sales. India (33% of sales) was up 8% YoY at INR 16.01 bn, led by the steady growth across its key therapies. Growth markets (10%) grew 16% YoY, EMEA (11%) was up 17% YoY, RoW (2%) grew 8% YoY, and API (5%) was down 20% YoY.
- **EBITDA grew on higher gross margin and steady sales:** Gross margin expanded by 778 bps YoY to 68.3% led by a better mix, lower licensing sales, and cost optimization. Higher staff/ R&D/ SG&A costs (+16/ 40/ 7% YoY) led to an EBITDA of INR 9.97 bn (+65% YoY) and a margin of 20.1% (+646 bps YoY). Higher depreciation (+73% YoY; impairment charge of ~INR 2 bn), lower interest (-23%) and other income (-22%) led to a reported PAT of INR 3.5 bn (+52% YoY). Adjusted for forex and one-off, the PAT was INR 5.2 bn (+154% YoY, -13% QoQ).
- **Key takeaways from con call:** LPC expects the US to see single-digit growth in FY25 and to sustain a quarterly sales rate at USD 200+ mn, led by steady traction in gSpiriva and new launches as well as steady growth in FY26 on launch visibility of few key products like Tolvaptan and Liraglutide (litigation-based). While the pricing trend was stable for gSpiriva, LPC had to undergo coupon structure (from Jun'24) as per the requirement of PBMs to maintain the substitution rate. gMyrbetriq launch was stalled due to preliminary injunction; working on injunction and expects to relaunch soon. For Dulera, LPC is in the process of responding to CRL; hopeful on FY26 launch. LPC expects India business to see double-digit growth in FY25 on traction in key therapies, new launches, scale-up in biosimilars and targeting M&A/inorganic activities. In-licensing products contributed ~12% of India sales in FY24 (vs. 15% in FY23). It expects an EBITDA margin of ~20% in FY25 and to expand by 200-300 bps over the next two years.

Quarterly financial summary

(INR mn)	3Q FY24	3Q FY23	YoY (%)	2Q FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	51,974	43,222	20	50,386	3	1,64,055	1,66,417	2,00,108	2,15,205	2,37,837
EBITDA	10,220	5,160	98	9,231	11	20,972	17,206	38,000	42,180	48,757
APAT	5,997	1,428	320	4,939	21	7,260	3,816	20,669	23,035	28,050
EPS (INR)	13.2	3.1	319	10.8	21	15.9	8.4	45.4	50.5	61.6
P/E (x)						101.1	192.4	35.5	31.9	26.2
EV/EBITDA (x)						36.1	44.3	19.6	17.4	14.7
RoCE (%)						3	5	16	17	19

Source: Company, HSIE Research, PAT adjusted for one-offs

REDUCE

CMP *(as on 7 May 2024)*	**INR 1,611**
Target Price	**INR 1,600**
NIFTY	**22,303**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1470	INR 1600
EPS %	FY25E	FY26E
	2.6	4.4

KEY STOCK DATA	
Bloomberg code	LPC IN
No. of Shares (mn)	456
MCap (INR bn) / ($ mn)	734/8,790
6m avg traded value (INR mn)	1,884
52 Week high / low	INR 1,704/704

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.0	35.4	128.7
Relative (%)	(0.9)	22.2	108.3

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	47.04	47.01
FIs & Local MFs	29.73	27.76
FPIs	16.11	18.28
Public & Others	7.12	6.95
Pledged Shares	-	-

Source: BSE

Mehul Sheth
mehul.sheth@hdfcsec.com
+91-22-6171-7349

IRB Infra

Ordering pick-up next trigger

IRB reported revenue/EBITDA/APAT of INR 20.6/8.8/1.8bn, ahead of our estimates by 14.5/11/28.5% resp. EBITDA margin came below our estimate of 44.5% at 43.2% (-366/-100bps YoY/QoQ), primarily due to the mix. The OB as of Mar'24 stood at INR 348bn, with EPC contributing 16.3% (INR 57bn) and O&M contributing 83.7% (INR 291bn). The consolidated gross debt as of Mar'24 stood at INR 147bn vs. INR 133.7bn as of Dec'23. On recently proposed guidelines by the RBI, IRB doesn't see any further impact on its financials as banks are already charging higher interests for under-construction projects by 60-70bps vs operational projects. The company expects considerable orders worth INR 2trn over the next 12-18 months in BOT toll and it expects to win 250-300bn (~15% market share). We have recalibrated our EPS estimates higher to factor in better growth and resultant improvement in margins owing to the mix. Given the improving outlook on ordering, better-than-expected toll growth and likely interest rate cuts, we increase our SOTP-based target price to INR 72/sh. Owing to the limited upside on CMP, we maintain our ADD rating on the stock.

- **Q4FY24 financial highlights:** Revenue: INR 20.6bn (+27.2/+4.7% YoY/QoQ, a beat of 14.5%). EBITDA: INR 8.8bn (+17/+2.3% YoY/QoQ, a beat of 11%). EBITDA margin: 43.2% (-366/-100bps YoY/QoQ, vs. our estimate of 44.5%, primarily due to revenue mix). Share of associates: INR -1,353mn (INR -368/-507mn in Q4FY23/Q3FY24). Consequently, APAT: INR 1.8bn (+45/+1% YoY/QoQ a beat of 28.5%). Q4FY24 BOT/TOT toll collections (IRB Infra + Pvt. InvIT) came in at INR 14.1bn (+22% YoY). Construction revenue came in at INR 18.6bn.
- **FY24 business highlights:** The OB as of Mar'24 stood at INR 348bn, with EPC contributing 16.3% (INR 57bn) and O&M contributing 83.7% (INR 291bn). IRB InvIT bagged ToT-13 and signed the concession agreement. The execution of the Ganga Expressway project is progressing as per schedule. It expects total projects worth INR 2trn to be bid out over the next two years on a BOT basis. Currently, it has no BOT-toll projects with pending bid results.
- **Comfortable balance sheet:** The consolidated gross debt as of Mar'24 stood at INR 147bn vs. INR 133.7bn as of Dec'23. On the recently proposed guidelines by RBI to banks on project financing loans, IRB doesn't see any further impact on its financials as banks are already charging higher interests for under-construction projects by 60-70bps vs operational projects.

Consolidated Financial Summary (INR mn)

INR mn	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY23	FY24	FY25E	FY26E
Net Sales	20,612	16,200	*27.2*	19,685	*4.7*	59,836	74,090	82,134	93,459
EBITDA	8,899	7,587	*17.3*	8,695	*2.3*	28,610	33,318	37,699	42,711
APAT	1,889	1,302	*45.2*	1,874	*0.8*	4,520	6,059	9,047	11,651
Diluted EPS (Rs)	0.3	0.2	*45.2*	0.3	*0.8*	0.7	1.0	1.5	1.9
P/E (x)						88.2	65.8	44.1	34.2
EV / EBITDA (x)						18.9	17.0	14.8	13.1
RoE (%)						3.5	4.5	6.4	7.9

Source: Company, HSIE Research

Change in estimates

INR mn	FY25E New	FY25E Old	Chg (%)	FY26E New	FY26E Old	Chg (%)
Revenues	82,134	81,252	1.1	93,459	90,414	3.4
EBIDTA	37,699	37,214	1.3	42,711	41,319	3.4
EBIDTA Margins (%)	45.9	45.8	10	45.7	45.7	0
APAT	9,047	8,684	4.2	11,651	11,037	5.6

Source: Company, HSIE Research

ADD

CMP (as on 7 May 2024)	INR 66
Target Price	INR 72
NIFTY	22,303

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 66	INR 72
EPS %	FY25E	FY26E
	4.1	5.5

KEY STOCK DATA	
Bloomberg code	IRB IN
No. of Shares (mn)	6,039
MCap (INR bn) / ($ mn)	399/4,776
6m avg traded value (INR mn)	1,900
52 Week high / low	INR 73/25

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.1)	88.7	135.5
Relative (%)	(6.0)	75.5	115.1

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	34.39	34.39
FIs & Local MFs	7.85	7.78
FPIs	47.16	47.21
Public & Others	10.59	10.59
Pledged Shares	16.80	16.80

Source: BSE

Pledged shares as % of total shares

Parikshit D Kandpal, CFA
parikshitd.kandpal@hdfcsec.com
+91-22-6171-7317

Jay Shah
jay.Shah1@hdfcsec.com
+91-22-6171-7353

Max Financial

Strong FY24; most sensitive to regulatory risk

MAXL posted a steep decline in FY24 VNB margins (-465bps) at 26.5%; although overall APE growth printed strong (+19%), absolute VNB was flat, driven by deterioration in product mix towards ULIPs. While AXSB capital infusion is complete, we believe there is limited scope for incremental wallet share gains from current levels (70%). We believe that the company's VNB margins are most sensitive to recent regulatory developments on higher surrender values for NPS business. We raise our VNB estimates by 11% for FY25E to factor in higher APE growth (~16%) - we build in APE/VNB CAGRs of 15/13% and operating RoEVs of 19% over FY25E-26E. We maintain ADD with a TP of INR1,130 (1.5x Mar-26E EV post-holding company discount).

- **Growth at the cost of margins:** Total APE grew 19% YoY (3y CAGR: 14%) to INR74.3bn, on the back of a strong 28% growth in the proprietary channel; however, VNB margins fell to 26.5% (FY23: 31.2%), driving VNB to INR19.7bn (+1% YoY). With sharp growth in ULIP (+51% YoY), its share in total APE mix shot up to 35% (+700bps); this, coupled with a fall in the NPS segment mix has impacted VNB margins significantly. The management reiterated that **MAXL's wallet share in AXSB has stabilised at 70%, which is optimal for the MAXL franchise**. EV clocked in at INR194.9bn (+20% YoY) with RoEV at 20.2%.
- **Most sensitive to regulatory headwinds:** MAXL has the highest share (~30%) of NPAR savings in retail APE compared to its peers; while this has helped improve margins, we believe the NPAR saving (NPS) product is increasingly fraught with regulatory risk. Although this impacts the entire industry, our analysis suggests that MAXL is the most vulnerable. We build in a marginal drop in the NPS segmental contribution (29% of retail APE mix).
- **Proprietary channel to drive growth:** MAXL has a high dependency on AXSB channel (~55% of retail APE contribution), further exposed to AXSB's need for core deposit mobilisation. However, counter share at 70% is at near-optimal levels. We believe that the proprietary channel will need to grow faster to push overall growth into high-teens, which may come at the cost of deterioration in the product mix, thereby further compressing margins.

Financial summary

(INR bn)	FY23	FY24	YoY (%)	9M FY24	FY25E	FY26E
NBP	89.6	110.2	23.0%	69.7	126.6	143.8
APE	62.5	74.3	18.9%	45.6	86.1	98.8
VNB	19.5	19.7	1.2%	11.5	22.3	25.2
VNB Margin (%)	31.2%	26.5%	-465bps	25.3%	25.9%	25.5%
EV	162.7	195.0	19.9%		228.7	268.2
MCap/EV (x)*	2.1	1.7			1.5	1.3
P/Adj. VNB (x)*	9.5	11.4			13.4	15.7
ROEV	22.1	20.2			19.2	18.8

*Refers to implied P/VNB. EV adjusted for stake in Max Life
Source: Company, HSIE Research

Change in estimates

(INR bn)	FY25E		
	Old	New	*Change % / bps*
APE	77.5	86.1	11.1
VNB	22.1	22.3	1.0
VNBM (%)	28.5%	25.9%	-259bps
EV	237.9	228.7	-3.9

Source: Company, HSIE Research

ADD

CMP *(as on 7 May 2024)*	INR 970
Target Price	INR 1,130
NIFTY	22,303

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,035	INR 1,130
VNB %		FY25E +11%

KEY STOCK DATA	
Bloomberg code	MAXF IN
No. of Shares (mn)	345
MCap (INR bn) / ($ mn)	335/4,007
6m avg traded value (INR mn)	1,052
52 Week high / low	INR 1,093/634

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	1.0	6.1	52.6
Relative (%)	(0.9)	(7.1)	32.2

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	6.5	6.5
FIs & Local MFs	36.9	39.9
FPIs	50.9	47.7
Public & Others	5.7	5.8
Pledged Shares	3.9	4.5

Source : BSE

Krishnan ASV,
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Shobhit Sharma
shobhit.sharma@hdfcsec.com
+91-22-6171-7341

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INSTITUTIONAL RESEARCH

Kansai Nerolac

Results miss expectation

Kansai Nerolac's (KNPL) standalone revenue grew 3.5% to INR 16.62bn (HSIE: INR 16.1bn). KNPL registered a double-digit volume/single-digit value growth in the decorative segment. Within the industrial segment, the auto as well as non-auto segment performed well. Premium salience across the portfolio continues to increase. GM/EBITDAM expanded 319/128bps YoY to 34.8/10.8% (HSIE: 36.2/13.9%). We increase our EPS estimates by 4/3% courtesy increase in cash balance resulting in higher other income. We maintain a REDUCE rating for KNPL with a DCF-based TP of INR300/sh (implying 28x FY26E P/E).

- **Q4FY24 highlights**: Standalone revenue grew by 3.5% YoY in Q4 to INR16.62bn (HSIE: INR16.1bn). Consolidated revenue was up 2.1% YoY to INR17.69bn. KNPL registered a double-digit volume/single-digit value growth in the decorative segment (>45% of sales). The salience of projects business in the decorative segment increased by 100 bps YoY. New product salience stood at ~10% of the overall mix; (up 150bps YoY). Rural demand remains weak. Within the industrial segment, PV and two & three-wheeler segments performed well, demand in CVs and tractors remained weak. The non-auto segment performed well. GMs expanded 319bps YoY to 34.8% (standalone; HSIE: 36.2%), given (1) normalizing RM prices and (2) premiumization. EBITDAM followed suit; increased 128bps YoY to 10.8% (HSIE: 13.9%), partially offset by (1) increased brand investments (4.5-5% of revenue) to defend market share and (2) higher employee expenses. High competitive intensity could keep margin gains in check. Management expects margins to be at FY24 levels in FY25. EBITDA/APAT grew 17.5/28.2% YoY to INR1.79/1.21bn (HSIE: INR2.23/1.39bn). Note: FY24 comprises exceptional gains from land parcel sale (Profit: INR6.61bn).
- **Outlook:** While KNPL has stepped up brand investments to defend share amid rising competition, we suspect more needs to be done on the product range and on increasing stickiness among dealers. We increase our EPS estimates by 4/3% to account for higher other income (courtesy higher cash balance from recent land sale) and maintain our REDUCE rating on the name with a DCF-based TP of INR300/sh (implying 28x FY26E P/E).

Quarterly financial summary (Consolidated)

(INR mn)	Q4 FY24	Q4 FY23	YoY (%)	Q3 FY24	QoQ (%)	FY23	FY24	FY25E	FY26E
Net Revenue	17,694	17,336	*2.1*	19,187	*(7.8)*	75,427	78,014	87,815	98,949
EBITDA	1,790	1,681	*6.5*	2,440	*(26.6)*	8,180	10,278	11,639	12,735
APAT	1,160	962	*20.6*	1,543	*(24.8)*	4,685	6,667	7,818	8,516
EPS (Rs)	1.4	1.8	*(19.6)*	1.9	*(24.8)*	5.8	8.2	9.7	10.5
P/E (x)						48.9	34.4	29.3	26.9
Core RoCE(%)						10.5	9.4	12.5	12.9

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY24 New	FY24 Old	FY24 Change (%)	FY25E New	FY25E Old	FY25E Change (%)	FY26E New	FY26E Old	FY26E Change (%)
Revenue	78,014	79,172	*(1.5)*	87,815	89,059	*(1.4)*	98,949	1,00,343	*(1.4)*
EBITDA	10,278	10,651	*(3.5)*	11,639	11,618	*0.2*	12,735	12,860	*(1.0)*
EBITDA margin (%)	13.2	13.5	***(28.0)***	13.3	13.0	***21.0***	12.9	12.8	***5.5***
APAT	6,667	6,916	*(3.6)*	7,818	7,488	*4.4*	8,516	8,267	*3.0*
APAT margin (%)	8.5	8.7	***(18.9)***	8.9	8.4	***49.5***	8.6	8.2	***36.8***
EPS (Rs)	8.2	8.6	*(3.6)*	9.7	9.3	*4.4*	10.5	10.2	*3.0*

Source: Company, HSIE Research, Standalone Financials

REDUCE

CMP *(as on 7 May 2024)*	**INR 283**
Target Price	**INR 300**
NIFTY	**22,303**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 300	INR 300
EPS %	FY25E +4.4	FY26E +3.0

KEY STOCK DATA	
Bloomberg code	KNPL IN
No. of Shares (mn)	808
MCap (INR bn) / ($ mn)	229/2,745
6m avg traded value (INR mn)	128
52 Week high / low	INR 357/258

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(11.1)	(6.4)	7.9
Relative (%)	(13.0)	(19.6)	(12.5)

SHAREHOLDING PATTERN (%)	**Dec-23**	**Mar-24**
Promoters	74.99	74.99
FIs & Local MFs	11.84	11.60
FPIs	4.28	4.72
Public & Others	8.89	8.69
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

Jay Gandhi
jay.gandhi @hdfcsec.com
+91-22-6171-7320

Tanuj Pandia
tanuj.pandia@hdfcsec.com
+91-22-6171-7348

Sonata Software

A minor blip

Sonata posted a weak quarter with a revenue decline of 2.2% QoQ CC and the margin fall of ~350 bps QoQ was much higher than anticipated. The drop in revenue was led by the Quant seasonality (large US BFSI client), delay in large deal closure (healthcare vertical) and delay in deal ramp-up. The revenue decline came after eight quarters of strong organic performance. We expect IITS to be back on the growth trajectory based on a healthy deal pipeline and strong book-to-bill of 1.22 (TCV of USD 100mn in Q4). The top hi-tech account growth has recovered, led by dynamics. The large deal pipeline is strong with ~67 large deals under pursuit and ~52% of the large deals are with Fortune 500 clients. The investments made in creating the large deal pipeline and lower revenue led to a drop in margins. The management indicated that the macro environment remains challenging, large-deal decision-making is slow, and growth could be challenging in the near term. However, they have maintained their aspiration to reach a USD 500 mn run rate for IITS in the next two years. The IITS margin range is 20-22%. The investments in Microsoft Fabric and Gen Ai capabilities will pave the way for future growth. We cut our revenue/EPS estimate for FY26 by 4.3/5.5% and P/E multiple to 23x to incorporate near-term challenges. We maintain our ADD rating with a target price of INR 610, based on 23x FY26E EPS. The stock is trading at a P/E of 30/24x FY25/26E EPS.

- **Q4FY24 highlights**: IITS revenue stood at USD 81.7mn, -2.4% QoQ growth vs our estimate of USD 84mn. Among the verticals, TMT grew +13.6% QoQ, healthcare +6.5% QoQ, while BFSI vertical de-grew by -19.6% QoQ and emerging de-grew by -51% QoQ. IITS EBITDA margin stood at 17.3%, down 532bps QoQ vs our estimate of 21.5%. Utilisation stood at 87.4% (+160bps QoQ) and the IITS headcount declined by 118 to 6,016. DPS EBITDA margin stood at 3.7% (+42bps QoQ). Consolidated revenue declined by 12% QoQ, due to a drop in DPS/IITS revenue (-15.9/-2.6% QoQ). The company had 14 large deal wins in FY24. Out of 67 large deals in the pipeline, 31 are in RMD, TMT-13, HLS-13, BFSI-4 and emerging-6 deals. ~40% of the pipeline is in Cloud and data. Net cash stands at INR 6.8bn, OCF/EBITDA is at 39%, and RoE is at 36%.
- **Outlook:** We expect IITS growth of 9.4/16.8% and DPS growth of ~12/15% for FY25/26E respectively. IITS margin will be at 21/22.4% and DPS margin at 3.9/4.0% for FY25/26E respectively. IITS revenue/consolidated EPS CAGR for FY24-26E is expected to be +13/24%.

Quarterly Financial Summary

YE March (INR bn)	Q4 FY24	Q4 FY23	YoY (%)	Q3 FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
IITS Revenues (USD mn)	81.7	65.8	*24.2*	83.7	*(2.4)*	203	241	324	354	413
Net Sales	21.92	19.14	*14.5*	24.93	*(12.1)*	55.53	74.49	86.13	96.19	111.57
EBIT	1.10	1.33	*(16.8)*	1.74	*(36.5)*	4.16	5.45	5.96	7.45	9.44
APAT	1.10	1.14	*(3.0)*	1.29	*(14.1)*	3.76	4.52	4.83	5.93	7.45
Diluted EPS (INR)	3.9	4.1	*(3.0)*	4.6	*(14.1)*	13.4	16.1	17.2	21.1	26.6
P/E (x)						47.5	39.6	37.0	30.2	24.0
EV / EBITDA (x)						37.4	30.8	25.9	21.0	16.8
RoE (%)						37.6	37.7	35.7	38.1	39.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
IITS Revenue (USD mn)	368	354	(3.8)	432	413	(4.3)
Revenue	100.25	96.19	(4.1)	117.16	111.57	(4.8)
EBIT	8.07	7.45	(7.7)	10.04	9.44	(6.0)
EBIT margin (%)	8.0	7.7	-31bps	8.6	8.5	-11bps
APAT	6.33	5.93	(6.3)	7.88	7.45	(5.5)
EPS (INR)	22.6	21.1	(6.3)	28.1	26.6	(5.5)

Source: Company, HSIE Research

ADD

CMP *(as on 7 May 2024)*	INR 638
Target Price	INR 610
NIFTY	22,303

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 700	INR 610
EPS %	FY25E	FY26E
	-6.3	-5.5

KEY STOCK DATA	
Bloomberg code	SSOF IN
No. of Shares (mn)	280
MCap (INR bn) / ($ mn)	179/2,143
6m avg traded value (INR mn)	547
52 Week high / low	INR 870/401

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(20.8)	1.2	48.3
Relative (%)	(22.6)	(12.0)	27.9

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	28.17	28.17
FIs & Local MFs	17.60	19.05
FPIs	14.47	15.23
Public & Others	39.76	37.55
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Amit Chandra
amit.chandra@hdfcsec.com
+91-22-6171-7345

Apurva Prasad
apurva.prasad@hdfcsec.com
+91-22-6171-7327

Vinesh Vala
vinesh.vala@hdfcsec.com
+91-22-6171-7332

Navin Fluorine International

Specialty chemical business shines; retain BUY

We retain a BUY on Navin Fluorine International Ltd (NFIL), with a target price of INR 3,981 on the back of (1) earnings visibility, given long-term contracts; (2) tilt in sales mix towards high-margin high-value business; and (3) capacity expansion-led growth. EBITDA/APAT were 39/61% above our estimates, owing to a 20% increase in revenue, offset by higher-than-expected raw material costs.

- **Financial Q4 performance:** Robust performance by specialty chemical and HPP business on a sequential basis resulted in revenue growth of 20% QoQ to INR6,020mn. Weak performance in CDMO (down 74% YoY to INR480mn) business resulted in a 13% fall in total revenue on a YoY basis. EBITDA came in at INR 1,101 mn(-45/+45% YoY/QoQ) while the EBITDA margin was at 18.3% (-1066/+320 YoY/QoQ).
- **Segmental Q4 performance: Specialty chemical:** Revenue grew 26/45% YoY/QoQ to INR2,570mn owing to a ramp-up in utilization, the addition of three molecules (one at Dahej and two at Surat). **HPP business:** Revenue grew by 3/18% YoY/QoQ to INR2,970mn. The uptake in revenue is due to the capacity addition of R32. The R32 plant has stabilised and is currently operating at optimum capacity. Refrigerant gas prices remained under pressure in the international market which impacted export realisation. The sale of HFO in Q4 was significantly higher than in the previous three quarters. The management expects a positive uptake in domestic pricing of R32. **CDMO business:** Sales in CDMO business declined 76/34% to INR480mn. The revenue was impacted by the deferral of molecules.
- **Change in estimates:** We cut our FY25/26 EPS estimates by 4/11% to INR 77/109, owing to the shift in sales mix and management guidance.
- **DCF-based valuation: Our target price is INR 3,981 (WACC 11%, terminal growth 5.5%). The stock is trading at 31x FY26E EPS.**

Financial summary (consolidated)

INR mn	4Q FY24	3Q FY24	*QoQ (%)*	4Q FY23	*YoY (%)*	FY22	FY23	FY24P	FY25E	FY26E
Net Sales	6,020	5,018	*20.0*	6,971	*(13.6)*	14,534	20,774	20,650	27,525	34,626
EBITDA	1,101	757	*45.4*	2,018	*(45.5)*	3,548	5,503	3,983	6,437	8,611
APAT	704	780	*(9.8)*	1,364	*(48.4)*	2,606	3,702	2,705	3,790	5,386
AEPS (INR)	14.2	15.8	*(9.8)*	27.5	*(48.4)*	52.6	74.7	54.6	76.5	108.7
P/E (x)						64.1	45.2	61.8	44.1	31.0
EV/EBITDA(x)						46.9	31.8	44.1	27.9	20.8
RoE (%)						15.0	18.4	11.8	15.0	18.8

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY25E Old	FY25E New	*% Ch*	FY26E Old	FY26E New	*% Ch*
EBITDA (INR mn)	7,036	6,437	*(8.5)*	10,017	8,611	*(14.0)*
Adj. EPS (INR/sh)	79.4	76.5	*(3.6)*	122.1	108.7	*(10.9)*

Source: Company, HSIE Research

BUY

CMP *(as on 7 May 2024)*	INR 3,377
Target Price	INR 3,981
NIFTY	22,303

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 4,136	INR 3,981
EPS %	FY25E	FY26E
	(3.6)	(10.9)

KEY STOCK DATA	
Bloomberg code	NFIL IN
No. of Shares (mn)	50
MCap (INR bn) / ($ mn)	167/2,005
6m avg traded value (INR mn)	787
52 Week high / low	INR 4,946/2,899

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	9.2	(6.2)	(29.4)
Relative (%)	7.3	(19.4)	(49.8)

SHAREHOLDING PATTERN (%)	Dec-23	Mar-23
Promoters	28.81	28.81
FIs & Local MFs	28.92	28.61
FPIs	15.92	15.57
Public & Others	26.35	27.01
Pledged Shares	3.15	3.15

Source : BSE

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Prasad Vadnere
prasad.vadnere@hdfcsec.com
+91-22-6171-7356

Akshay Mane
akshay.mane @hdfcsec.com
+91-22-6171-7338

Happiest Minds Technologies

Better growth prospects

Happiest Minds (HAPPSTMN) delivered an in-line quarter on growth, but importantly pointed to an accelerated organic growth trajectory supported by its new org structure, ODC takeover of EdTech customer, traction in GenAI business unit, and synergy opportunity from Pure Software acquisition. Recent growth has been driven by the India geography (higher mix than peers) and offset by weakness in the EdTech vertical (still a high revenue mix). The current scale of the business, the distinction in quality and the disproportionate impact from potential recovery in discretionary services in the sector can keep valuation higher than peers for HAPPSTMN. Maintain ADD on HAPPSTMN with a TP of INR 875, based on 36x FY26E and 24% EPS CAGR over FY24-26E. High exposure to the EdTech vertical remains a risk and integration of Pure Software is a key monitorable.

- **In-line quarter, growth acceleration:** HAPPSTMN posted revenue of USD 50mn, 1.4% QoQ and 9.1% YoY, led by India geography (17.6% of revenue and highest mix within peers). For FY24, the company's growth decelerated to 10.3% compared to 21% in FY23, impacted by a high share of digital and discretionary mix in the business. HAPPSTMN gave an outlook of 35 to 40% revenue growth for FY25E, which implies an organic outlook of ~12-17% for FY25E.
- **Synergy from PureSoftware:** HAPPSTMN has recently announced the acquisition of PureSoftware of USD 94.5mn (including upfront USD 77mn and earnout of USD 17mn in a year) at 2.2x revenue (including earn-out). The acquisition can support the scaling of the company's BFSI and healthcare verticals, provide cross-selling opportunities and large BFS clients access and nearshore delivery (Mexico). Integration of large acquisitions (relative to its scale) will be a key monitorable.
- **Org structure revamp & GenAi driver:** HAPPSTMN has revamped its org structure and has moved to an industry-vertical structure as compared to a horizontal-based structure earlier. Verticalisation of the business will enable the company to better capture the 'EN' growth supporting client mining. The creation of the GenAI business unit will also be a growth driver – HAPPSTMN's GBS has 14 active customers and 20 projects.
- **Outlook:** Our organic growth estimates are nearly unchanged and we build some synergy benefits for FY26E – FY26E EPS revised up by 2%. We factor USD revenue growth at 33.4% and 26% for FY25E and FY26E respectively; factor EBITM at 16.5% and 17.4%, translating to an EPS CAGR of 24% over FY24-26E with a sharper impact of other income and amortisation in H1FY25E. HAPPSTMN is trading at 34x FY26E EPS, lower than its historical average of 48x.

Quarterly Financial summary

YE March (INR bn)	Q4 FY24	Q4 FY23	YoY (%)	Q3 FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Revenue (USD mn)	50	46	*9.1*	49	*1.4*	147	178	196	262	330
Net Sales	4.17	3.78	*10.4*	4.10	*1.8*	10.94	14.29	16.25	21.86	28.01
EBIT	0.68	0.79	*(13.8)*	0.66	*3.4*	2.25	3.17	2.78	3.60	4.86
APAT	0.62	0.58	*8.0*	0.59	*5.9*	1.86	2.36	2.38	2.77	3.70
Diluted EPS (INR)	4.1	3.8	*8.0*	3.9	*5.9*	12.2	15.5	15.6	18.2	24.3
P/E (x)						67.4	53.1	52.6	45.2	33.8
EV / EBITDA (x)						46.9	34.3	34.6	25.8	19.6
RoE (%)						30.6	31.3	20.5	17.6	20.7

Source: Company, HSIE Research, Consolidated Financials

ADD

CMP *(as on 7 May 2024)*	INR 822
Target Price	INR 875
NIFTY	22,303

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 855	INR 875
EPS %	FY25E	FY26E
	-2.2	+2.1

KEY STOCK DATA	
Bloomberg code	HAPPSTMN IN
No. of Shares (mn)	152
MCap (INR bn) / ($ mn)	125/1,499
6m avg traded value (INR mn)	438
52 Week high / low	INR 1,023/738

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.7)	(2.3)	(5.7)
Relative (%)	(6.6)	(15.5)	(26.1)

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	50.24	50.24
FIs & Local MFs	2.41	2.57
FPIs	5.05	4.69
Public & Others	42.30	42.50
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Apurva Prasad
apurva.prasad@hdfcsec.com
+91-22-6171-7327

Amit Chandra
amit.chandra@hdfcsec.com
+91-22-6171-7345

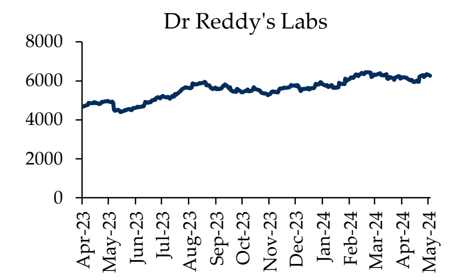
Vinesh Vala
vinesh.vala@hdfcsec.com
+91-22-6171-7332

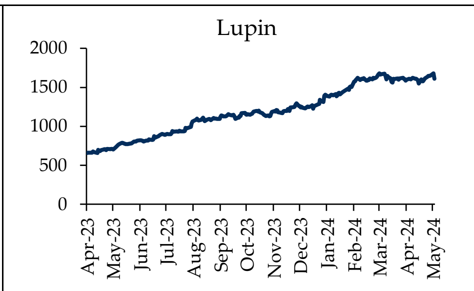
Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

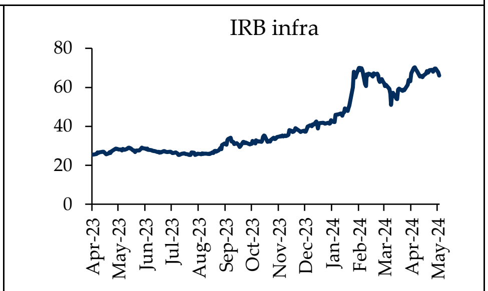
Disclosure:

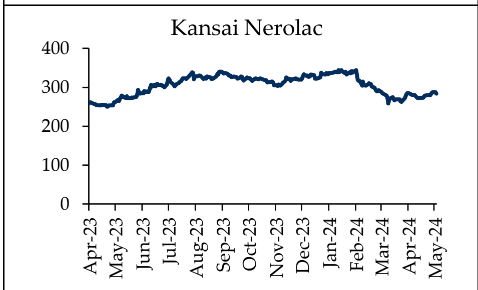
Analyst	Company Covered	Qualification	Any holding in the stock
Mehul Sheth	Dr Reddy's Laboratories, Lupin	MBA	NO
Parikshit Kandpal	IRB Infra	CFA	NO
Jay Shah	IRB Infra	CA	NO
Jay Gandhi	Kansai Nerolac	MBA	NO
Tanuj Pandia	Kansai Nerolac	CA	NO
Amit Chandra	Sonata Software, Happiest Minds Technologies	MBA	NO
Apurva Prasad	Sonata Software, Happiest Minds Technologies	MBA	NO
Vinesh Vala	Sonata Software, Happiest Minds Technologies	MBA	NO
Nilesh Ghuge	Navin Fluorine International	MMS	NO
Harshad Katkar	Navin Fluorine International	MBA	NO
Prasad Vadnere	Navin Fluorine International	MSc	NO
Akshay mane	Navin Fluorine International	PGDM	NO
Krishnan ASV	Max Financial	PGDM	NO
Shobhit Sharma	Max Financial	CA	NO

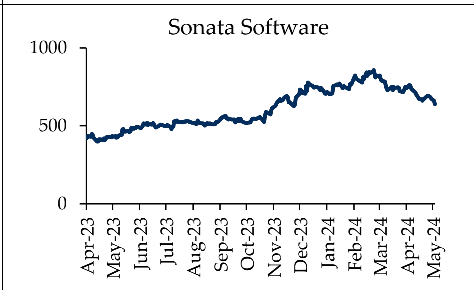
1 Yr Price movement

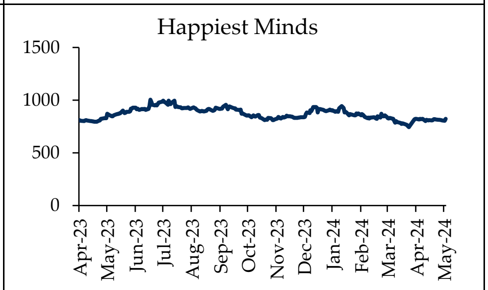


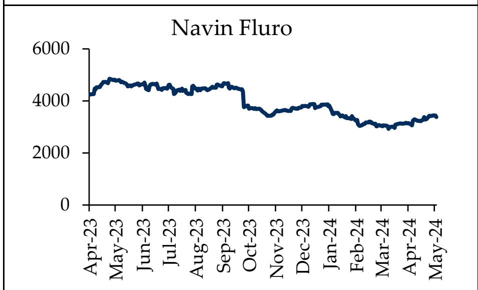


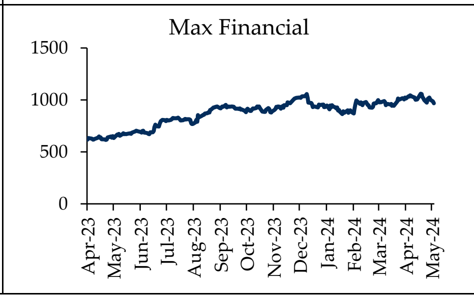












Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400
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