

# Narayana Health

## India recovery trends – a key monitorable

Narayana Health (NH) Q4 results were strong with EBITDA at INR1.4bn (+48% YoY, +34% QoQ) vs. our expectation of INR1.1bn. The beat was largely driven by strong recovery in India business (pick-up in elective surgeries, lower COVID contribution) and continued momentum in Cayman Islands (40.5% EBITDA margins vs. 25% in FY20). We expect recovery trends to continue in India (barring Q1FY22) with flagship units (40%+ of revenues) growing in high single digit (on a low base), other mature units growing in low double digits and new units (ex-SRCC) turning profitable by FY23. NH expects moderation in Cayman Islands margins as travel restrictions ease. We increase our EBITDA estimates for FY22/23e by 2%/8% to factor in healthy recovery trends in India. However, at the CMP of INR505/sh., the stock is trading at ~15x FY23e EV/EBITDA, which limits the scope of further re-rating. Downgrade to ADD.

- Key operating parameters witness improvement:** NH's India revenue grew 13% YoY and 12% QoQ to INR8.4bn, driven by strong recovery across regions (at or above pre-COVID levels). Key operating parameters improved in Q4 as occupancies saw steady improvement (55%, +277bps QoQ, pick-up in electives), ARPOBs were at an all-time high at INR11mn (+11% YoY, +8% QoQ, high-end procedures) and ALOS declined to 4.8 (vs. 5.1 days QoQ, lower COVID contribution).
- Mature units post strong recovery, new units lag:** Mature units' revenues grew by ~10% YoY/18% QoQ. With decline in COVID cases (overall contribution down to ~3% in Q4 vs. 14% in Q3), the mature units' margins reverted to 20%+ levels (+74bps YoY, +382bps QoQ), aided by recovery in elective surgeries (Cardiac: 35-36%, Onco: 13%). The new units' revenue remained flattish (-1% QoQ). EBITDA losses increased to INR82mn from INR41mn in Q3. In FY21, the new units' EBITDA margin improved to -18% (vs. -23% in FY20).
- Cayman operations likely to moderate as travel restrictions ease:** Cayman operations witnessed some moderation as revenue declined sequentially by 3% to USD18.5mn. EBITDA margin declined by 187bps QoQ to 40.5%, but continued to remain significantly higher than the pre-COVID level (~25% margin in FY20). NH believes the margin is unlikely to sustain once travel restrictions ease. As per the company, Cayman's growth trajectory should improve post the commissioning of onco unit, which is 18-24 months away.
- Key call takeaways:** (a) India hospitals revenues – April: down by 7% MoM (vs. 3-4% down historically), May: down 3-4% MoM, COVID contribution rose to 13% in April (vs ~3% in Q4); (b) India expansion – no plans of greenfield/acquisition in the near term; (c) Cayman operations – the company plans to open clinics/diagnostic centers/ retail pharmacies in the Caribbean; (d) ARPOBs are expected to moderate as routine business picks up; (e) Capex: INR2.5-3bn in FY22, INR1.25-1.5bn in FY23.

### Financial Summary

	4Q FY21	4Q FY20	YoY (%)	3Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	8,378	7,429	12.8	7,504	11.6	31,278	25,823	35,455	40,552
EBITDA	1,414	957	47.7	1,049	34.8	4,229	1,821	5,797	7,256
EBITDA Margin	16.9	12.9	399bps	14.0	290bps	13.5	7.1	16.4	17.9
APAT	680	204	233.0	408	66.6	1,108	-143	2,335	3,126
Adj. EPS (INR)	3.3	1.0	233	2.0	66.6	5.4	-0.7	11.4	15.3
EV/ EBITDA (x)						24.9	56.7	18.3	14.7
RoCE (%)						10.9	3.6	15.6	16.7

Source: Company, HSIE Research, multiples adj. for NPV of Cayman expansion

## ADD

CMP (as on 02 June 2021)	INR 505
Target Price	INR 525
NIFTY	15,576

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR 460	INR 525
EPS %	FY22E +3%	FY23E +12%

### KEY STOCK DATA

Bloomberg code	NARH IN
No. of Shares (mn)	204
MCap (INR bn) / (\$ mn)	103/1,387
6m avg traded value (INR mn)	170
52 Week high / low	INR 567/251

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.2	32.4	70.8
Relative (%)	14.1	16.2	17.5

### SHAREHOLDING PATTERN (%)

	Mar-21	Dec-20
Promoters	63.85	63.85
FIs & Local MFs	19.59	21.18
FPIs	10.96	8.95
Public & Others	5.60	6.02
Pledged Shares	0.00	0.00

Source : BSE

**Bansi Desai, CFA**

bansi.desai@hdfcsec.com  
+91-22-6171-7341

**Karan Vora**

karan.vora@hdfcsec.com  
+91-22-6171-7359

**Financial Snapshot**

Revenue up by 13% YoY mainly driven by strong recovery in flagship and other mature units (now at or above pre-Covid levels)

Other expenses at INR 1.6bn reverted back to the normalised run-rate of INR1.6-1.8bn

(INR mn)	4QFY21	4QFY20	YoY %	3QFY21	QoQ %	FY21	FY20	YoY %
Net Sales	8,378	7,429	12.8	7,504	11.6	25,823	31,278	(17.4)
EBITDA	1,414	957	47.7	1,049	34.8	1,821	4,229	(56.9)
Other income	85	70	21.3	46	86.7	282	238	18.6
Depreciation	445	551	(19.3)	465	(4.3)	1,835	1,858	(1.2)
Interest	182	208	(12.3)	186	(1.8)	760	853	(10.9)
PBT	872	160	443.7	445	96.2	-492	1,647	(129.9)
Tax	172	36	378.9	8	2,113.9	-418	423	(198.9)
Adjusted PAT	680	204	233.0	408	66.6	-143	1,109	(112.9)
Extra ordinary inc./ (exp)	0	109	(100.0)	0	NA	0	109	(100.0)
Reported PAT	680	120	467.1	408	66.6	-143	1,190	(112.0)

Source: Company, HSIE Research

EBITDA margin improved to 16.9% (+399bps YoY, +290bps QoQ) led by moderation in doctor fees (-181bps YoY), staff costs (-237bps YoY) and other expenses (-45bps YoY)

**Margin Analysis**

Margin Analysis	4QFY21	4QFY20	YoY (bps)	3QFY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross Margins	75.3	75.9	-64	73.5	180	73.8	76.2	-242
Doctor Fees % Net Sales	18.6	20.5	-181	18.2	43	19.9	20.1	-25
Employee Exp % Net Sales	20.2	22.6	-237	20.9	-64	24.3	21.8	249
Other Exp % Net Sales	19.5	20.0	-45	20.4	-89	22.6	20.8	181
EBITDA Margin (%)	16.9	12.9	399	14.0	290	7.1	13.5	-647
Tax Rate (%)	19.8	22.4	-267	1.8	1,802	84.9	25.6	5,920
APAT Margin (%)	8.1	2.7	537	5.4	268	-0.6	3.5	-410

Source: Company, HSIE Research

**Key business segments**

**India Hospitals -**  
 Mature: +10% YoY (reduced incidence of Covid in tier-I cities/ lifting of lockdowns)  
 New: +10% YoY (continued ramp-up across new units, low base)

**Cayman - Continued momentum in Cayman with a revenue growth of +30% YoY/-3% QoQ and 40.5% margins**

**Segmental Quarterly Performance**

(INR mn)	4QFY21	4QFY20	% Chg	3QFY21	% Chg	FY21	FY20	% Chg
Hospitals business	6,729	6,142	9.6	6,142	9.6	19,764	25,593	(22.8)
-Southern Region	2,641	2,429	8.7	2,429	8.7	7,499	10,921	(31.3)
-Eastern Region	2,223	2,091	6.3	2,091	6.3	6,180	8,191	(24.5)
-Western Region	1,072	892	20.1	892	20.1	3,333	3,723	(10.5)
-Northern Region	793	730	8.6	730	8.6	2,752	2,759	(0.2)
Heart Centers	240	188	27.7	188	27.7	828	1,078	(23.1)
Other Ancillary Business	32	64	(49.5)	64	(49.5)	114	269	(57.7)
India business	7,002	6,394	9.5	6,394	9.5	20,706	26,940	(23.1)
Cayman Island Facility	1,376	1,035	32.8	1,035	32.8	5,117	4,338	18.0
Total Revenues	8,378	7,429	12.8	7,429	12.8	25,823	31,278	(17.4)

Source: Company, HSIE Research

**Revise TP to INR525/sh, downgrade to ADD**

We increase our EBITDA estimates for FY22/23e by 2%/8% to factor healthy recovery trends in India and revise TP to INR525/sh. Our TP is based on SOTP valuation of (a) India hospitals - 16x FY23 EBITDA; (b) Cayman operations - 12x FY23 EBITDA; (c) Cayman expansion - NPV of INR35/sh. **Risks:** Adverse government regulations (price control), delayed payback period for Cayman expansion, increased competition in Cayman, and slower recovery in flagship units.

## SOTP Valuation

Particulars	EBITDA	Multiple	INR mn
India business	5,105	16.0	81,683
Cayman operations	2,151	12.0	25,814
<b>Fair value</b>	<b>7,256</b>	<b>14.8</b>	<b>1,07,498</b>
CWIP (ex-Cayman expansion)			199
<b>Enterprise Value (EV)</b>			<b>1,07,697</b>
Less: Adj. Net Debt (ex-Cayman expansion)			5,426
Less: Lease liabilities			2,079
<b>Implied Market Cap</b>			<b>1,00,187</b>
No. of Equity shares			204.4
<b>Fair Value per share (Existing operations)</b>			<b>490</b>
Add: NPV of Cayman expansion			35
<b>Target Price</b>			<b>525</b>

Source: HSIE Research

## Quarterly performance tracker

### Mature units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenues	5,777	6,094	5,740	5,503	2,517	3,761	5,071	6,596
Margins	23%	26%	23%	20%	-24%	-1%	17%	21%
ARPOBs	9.4	9.4	9.3	9.4	10.1	9.8	9.8	10.7
Discharges	57,098	61,890	58,825	54,604	19,219	26,355	34,718	39,630

Source: Company, HSIE Research

### New units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenues	574	650	616	639	364	577	744	133
Margins	-27%	-20%	-22%	-20%	-51%	-17%	-4%	-9%
ARPOBs	12.4	12.3	11.8	12.2	13.4	13.7	13.5	15
Discharges	7,098	7,947	8,181	7,815	5,578	7,008	3,424	3,743

Source: Company, HSIE Research

### Cayman facility's performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenues	15.6	16.0	15.3	14.2	11.5	19.5	19.1	18.5
Margins	22%	24%	24%	29%	15%	46%	42%	41%
ARPOBs	1.8	1.6	1.4	1.4	1.6	2.2	2.0	2.0
Discharges	660	641	696	584	323	627	590	582

Source: Company, HSIE Research

## India - Regional performance

### Bangalore units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenues	2,464	2,556	2,339	2,072	793	1,202	1,796	2,205
ARPOBs	11.7	11.4	11.2	12.1	13.3	11.5	11.7	13.5
Margins	32%	34%	30%	26%	-31%	-6%	19%	26%

Source: Company, HSIE Research

### Southern Peripheral units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenues	370	393	369	357	301	373	393	415
ARPOBs	7.1	6.7	7.0	7.2	9.8	8.7	8.9	9.5
Margins	15%	20%	21%	18%	13%	20%	22%	20%

Source: Company, HSIE Research

### Kolkata units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenues	1,663	1,769	1,724	1,793	616	1,077	1,571	1,896
ARPOBs	9.0	9.2	9.1	9.0	9.3	8.9	8.7	9.5
Margins	21%	23%	22%	21%	-46%	-4%	17%	20%

Source: Company, HSIE Research

### Eastern Peripheral units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenues	308	328	308	297	205	207	281	327
ARPOBs	6.7	6.6	6.7	6.8	7.4	8.2	8.4	7.8
Margins	10%	17%	12%	8%	-6%	-8%	11%	16%

Source: Company, HSIE Research

### Western region units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenues	924	983	923	892	520	787	954	1,072
ARPOBs	8.5	8.3	8.1	8.2	9.1	9.7	10.0	10.4
Margins	3%	7%	3%	1%	-28%	-1%	9%	6%

Source: Company, HSIE Research

### Northern region (ex-Jammu) units' performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenues	431	524	493	538	301	497	617	602
ARPOBs	14.3	13.9	12.9	13.4	15.4	13.9	14.2	16.7
Margins	-25%	-17%	-18%	-14%	-40%	-10%	1%	-3%

Source: Company, HSIE Research

## Financials

### Consolidated Income Statement

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Revenues</b>	<b>16,138</b>	<b>18,782</b>	<b>22,809</b>	<b>28,609</b>	<b>31,278</b>	<b>25,823</b>	<b>35,455</b>	<b>40,552</b>
Growth (%)	18.3	16.4	21.4	25.4	9.3	-17.4	37.3	14.4
Operative Expenses	3,871	4,359	5,565	6,875	7,453	6,779	8,456	9,451
Gross Profit	12,267	14,423	17,244	21,734	23,825	19,045	26,999	31,101
Gross Margins	76.0	76.8	75.6	76.0	76.2	73.8	76.2	76.7
Employee cost	6,547	7,608	9,445	12,139	13,027	11,396	14,395	16,342
Other expenses	3,974	4,526	5,677	6,717	6,569	5,828	6,807	7,502
<b>EBITDA</b>	<b>1,746</b>	<b>2,289</b>	<b>2,123</b>	<b>2,878</b>	<b>4,229</b>	<b>1,821</b>	<b>5,797</b>	<b>7,256</b>
Growth (%)	43%	31%	-7%	36%	47%	-57%	218%	25%
Margins (%)	10.8	12.2	9.3	10.1	13.5	7.1	16.4	17.9
Depreciation	761	799	1,000	1,374	1,858	1,836	1,920	2,024
Other income	147	175	189	167	238	282	295	299
Interest	294	218	468	714	853	760	738	834
<b>PBT</b>	<b>727</b>	<b>1,433</b>	<b>850</b>	<b>957</b>	<b>1,647</b>	<b>-493</b>	<b>3,433</b>	<b>4,697</b>
Tax	301	524	290	341	423	-418	1,030	1,503
Effective tax rate (%)	41.4	36.5	34.1	35.6	25.6	84.8	30.0	32.0
<b>Recurring PAT</b>	<b>148</b>	<b>822</b>	<b>517</b>	<b>592</b>	<b>1,108</b>	<b>-143</b>	<b>2,335</b>	<b>3,126</b>
<b>Reported PAT</b>	<b>426</b>	<b>909</b>	<b>560</b>	<b>616</b>	<b>1,225</b>	<b>-75</b>	<b>2,403</b>	<b>3,194</b>

Source: Company, HSIE Research

### Consolidated Balance Sheet

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity capital	2,044	2,044	2,044	2,044	2,044	2,044	2,044	2,044
Reserves and surplus	6,716	7,587	8,314	8,768	9,316	9,158	10,909	13,254
<b>Shareholders' funds</b>	<b>8,760</b>	<b>9,631</b>	<b>10,357</b>	<b>10,811</b>	<b>11,360</b>	<b>11,202</b>	<b>12,953</b>	<b>15,297</b>
Minority Interest	3	2	3	4	5	5	5	5
Total Debt	3,041	2,821	9,473	9,534	11,076	9,592	12,124	13,544
<b>Total Liabilities</b>	<b>13,550</b>	<b>14,206</b>	<b>21,723</b>	<b>22,380</b>	<b>24,487</b>	<b>22,414</b>	<b>26,759</b>	<b>30,588</b>
Net fixed assets	9,927	10,209	17,117	17,124	17,245	16,438	17,715	17,594
Capital work-in-progress	138	530	350	561	118	199	2,789	5,749
<b>Total non-current assets</b>	<b>12,704</b>	<b>13,452</b>	<b>20,563</b>	<b>21,097</b>	<b>23,046</b>	<b>21,049</b>	<b>24,359</b>	<b>26,639</b>
Investments	0	0	0	0	693	1,100	1,100	1,100
Inventories	497	524	836	832	602	478	971	1,111
Debtors	1,518	1,569	2,790	2,664	2,622	2,785	3,691	4,222
Cash & bank balance	138	262	333	965	1,027	1,107	717	1,957
Loans and Advances	221	383	221	293	417	518	542	568
Other current assets	485	278	612	519	503	662	684	708
<b>Total current assets</b>	<b>2,860</b>	<b>3,016</b>	<b>4,793</b>	<b>5,274</b>	<b>5,864</b>	<b>6,651</b>	<b>7,706</b>	<b>9,666</b>
Creditors	1,610	1,885	2,962	3,335	3,616	4,103	4,080	4,444
Provisions	118	122	243	266	330	305	305	305
Total current liabilities & provisions	2,014	2,262	3,633	3,991	4,424	5,285	5,306	5,716
<b>Net current assets</b>	<b>846</b>	<b>754</b>	<b>1,160</b>	<b>1,283</b>	<b>1,440</b>	<b>1,366</b>	<b>2,400</b>	<b>3,950</b>
<b>Total net assets</b>	<b>13,550</b>	<b>14,206</b>	<b>21,723</b>	<b>22,380</b>	<b>24,487</b>	<b>22,415</b>	<b>26,760</b>	<b>30,589</b>

Source: Company, HSIE Research

### Consolidated Cash Flow

Year to March (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Net Profit Before Tax</b>	<b>510</b>	<b>1,353</b>	<b>804</b>	<b>934</b>	<b>1,613</b>	<b>-561</b>	<b>3,364</b>	<b>4,629</b>
Depreciation	761	799	1,000	1,374	1,858	1,836	1,920	2,024
Cash flow before WC	1,874	2,475	2,427	3,243	4,606	2,080	6,067	7,537
WC changes	217	84	-265	83	488	581	-1,422	-306
Taxes paid	-350	-366	-339	-539	-660	418	-1,030	-1,503
<b>Cash flow from operations</b>	<b>1,741</b>	<b>2,194</b>	<b>1,823</b>	<b>2,786</b>	<b>4,433</b>	<b>3,079</b>	<b>3,615</b>	<b>5,728</b>
Organic Capex	-878	-1,186	-2,026	-1,495	-1,144	-609	-5,240	-4,310
Inorganic Capex	-323	-62	-3,603	-102	0	0	0	0
<b>Cash flow from investing</b>	<b>-1,502</b>	<b>-1,463</b>	<b>-5,338</b>	<b>-1,613</b>	<b>-1,885</b>	<b>-679</b>	<b>-5,216</b>	<b>-4,291</b>
Equity capital issues (net)	0	0	1	4	1	0	0	0
Borrowings (net)	445	-246	3,466	276	-1,472	-1,484	2,532	1,420
Interest paid	-264	-206	-316	-553	-509	-760	-738	-834
Dividends paid	0	0	0	0	-490	0	-584	-781
<b>Cash flow from financing</b>	<b>-264</b>	<b>-206</b>	<b>-316</b>	<b>-553</b>	<b>-998</b>	<b>-760</b>	<b>-1,322</b>	<b>-1,616</b>
<b>Net change in cash</b>	<b>-26</b>	<b>525</b>	<b>-3,831</b>	<b>621</b>	<b>1,550</b>	<b>1,640</b>	<b>-2,923</b>	<b>-179</b>
Beginning cash	-527	-108	172	-50	844	918	1,074	684
<b>Closing cash</b>	<b>-553</b>	<b>418</b>	<b>-3,516</b>	<b>563</b>	<b>2,390</b>	<b>2,559</b>	<b>-1,848</b>	<b>505</b>
<b>Free cash flow</b>	<b>540</b>	<b>945</b>	<b>-3,806</b>	<b>1,189</b>	<b>3,289</b>	<b>2,469</b>	<b>-1,625</b>	<b>1,418</b>

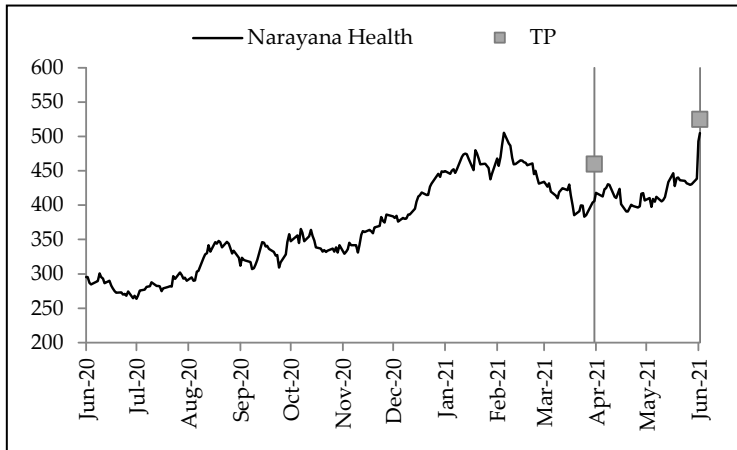
Source: Company, HSIE Research

### Key Ratios

Year to March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>PROFITABILITY (%)</b>								
GPM	76.0	76.8	75.6	76.0	76.2	73.8	76.2	76.7
EBITDA Margin	10.8	12.2	9.3	10.1	13.5	7.1	16.4	17.9
APAT Margin	0.9	4.4	2.3	2.1	3.5	-0.6	6.6	7.7
RoE	5.2	9.9	5.6	5.8	11.0	-0.7	19.9	22.6
RoCE	7.2	9.4	6.3	6.6	10.9	3.6	15.6	16.7
<b>EFFICIENCY</b>								
Tax Rate (%)	41.4	36.5	34.1	35.6	25.6	84.8	30.0	32.0
Fixed Asset Turnover (x)	1.1	1.2	1.0	1.1	1.1	0.9	1.1	1.2
Inventory (days)	11	10	13	11	7	7	10	10
Debtors (days)	34	30	45	34	31	39	38	38
Other Current Assets (days)	9	4	9	6	4	6	5	4
Payables (days)	36	37	47	43	42	58	42	40
Other Current Liab(days)	6	5	7	5	6	12	9	9
Cash Conversion Cycle (days)	9	4	11	2	(5)	(12)	6	8
Debt/EBITDA (x)	1.6	1.1	4.3	3.0	2.2	3.9	1.7	1.4
Net D/E (x)	0.3	0.3	0.9	0.8	0.8	0.6	0.8	0.7
Interest Coverage (x)	3.8	7.6	2.8	2.3	3.1	0.4	5.6	6.6
<b>PER SHARE DATA (INR)</b>								
EPS	0.7	4.1	2.5	2.9	5.4	(0.7)	11.4	15.3
Dividend	-	-	-	1.0	1.2	-	2.9	3.8
Book Value	43.0	47.5	51.0	52.9	55.6	54.8	63.4	74.9
<b>VALUATION</b>								
P/E (x)	695.4	124.6	198.2	174.4	93.1	(719.4)	44.2	33.0
P/BV (x)	11.7	10.6	9.9	9.5	9.1	9.2	8.0	6.7
EV/EBITDA (x)	56.6	43.1	49.6	36.3	24.9	56.7	18.3	14.7
EV/Revenues (x)	6.1	5.2	4.6	3.7	3.4	4.0	3.0	2.6
OCF/EV (%)	1.8	2.2	1.7	2.7	4.2	3.0	3.4	5.4
FCF/EV (%)	0.5	1.0	(3.6)	1.1	3.1	2.4	(1.5)	1.3
FCFE/Mkt Cap (%)	1.3	0.7	3.2	1.5	1.8	1.0	0.9	2.8
Dividend Yield (%)	-	-	-	0.2	0.2	-	0.6	0.8

Source: Company, HSIE Research, multiples adj. for NPV of Cayman expansion

**RECOMMENDATION HISTORY**



Date	CMP	Reco.	Target
1-Apr-21	406	BUY	460
3-Jun-21	505	ADD	525

**Rating Criteria**

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

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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: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

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**HDFC securities****Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)