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## IPO Note – Stove Kraft Limited

24-January-2021



**RETAIL RESEARCH**



## Issue Snapshot:

Issue Open: Jan 25 – Jan 28, 2021

Price Band: Rs. 384 –385

\*Issue Size: 10,717,532 eq shares  
(Fresh Issue of 2,467,532 eq sh  
+ Offer for sale of 8,250,000 eq sh)

Issue Size: Rs. 411.66 – 412.65 cr

Reservation for:

QIB	atleast	75% eq sh
Non Institutional	Upto	15% eq sh
Retail	Upto	10% eq sh

Face Value: Rs 10

Adjusted Book value: Rs 51.89  
(September 30, 2020)

Bid size: - 38 equity shares and in multiples thereof

100% Book built Issue

## Capital Structure:

Pre Issue Equity:	Rs. 30.08 cr
Post issue Equity:	Rs. 32.55 cr*

Listing: BSE & NSE

Book Running Lead Manager: Edelweiss  
Financial Services Ltd, JM Financial Ltd

Registrar to issue: KFin Technologies  
Private Ltd

## Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter & Promoter Group	61.3	54.4
Public	38.7	45.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*=assuming issue subscribed at higher band  
Source for this Note: RHP

## Background & Operations:

Stove Kraft Limited is a kitchen solutions and an emerging home solutions brand. Further, it is one of the leading brands for kitchen appliances in India, and are one of the dominant players for pressure cookers and amongst the market leaders in the sale of free standing hobs and cooktops. It is engaged in the manufacture and retail of a wide and diverse suite of kitchen solutions under its Pigeon and Gilma brands, and proposes to commence manufacturing of kitchen solutions under the BLACK + DECKER brand, covering the entire range of value, semi-premium and premium kitchen solutions, respectively. Its kitchen solutions comprise of cookware and cooking appliances across its brands, and its home solutions comprise various household utilities, including consumer lighting, which not only enables it to be a one stop shop for kitchen and home solutions, but also offers products at different pricing points to meet diverse customer requirements and aspirations. SKL has been able to leverage the distribution network of its Pigeon branded products, and their brand recall value to enter new product segments and markets. In 2016, it further diversified the Pigeon brand by launching LED products under it and in 2019, it commenced manufacturing LED products at its Bengaluru Facility. It maintains a continuous focus on the development of its brands, and invest significant resources towards its growth and outreach. Further, its dedication to R&D, quality and customer satisfaction, its in-house servicing capabilities and its owned maintenance and service network also contribute to the market perception of its brands and products.

SKL flagship brands, Pigeon and Gilma, has enjoyed a market presence of over 15 years and enjoy a high brand recall amongst customers for quality and value for money. As of September 30, 2020, it had an installed annual production capacity of 38.40 million units, with the capability to manufacture products in the pressure cookers, non-stick cookware (roller coated and spray coated), LPG stoves, mixer grinders, LED bulbs, iron and induction cooktops categories. Similarly, as of September 30, 2020, its Baddi Facility, focused on the Oil Company Business, which includes manufacturing and co-branding of products with such Companies, ( "OCB" ) has an installed capacity of 2.80 million units per annum, with the capability to manufacture products such as LPG stoves and inner lid cooker. For certain product categories and sub-categories which do not enjoy economies of scale in India, it engages in sourcing from third party OEMs predominantly from outside India.

Additionally, SKL has 651 distributors in 27 states and five union territories of India and 12 distributors for its products that are exported as of September 30, 2020. As of September 30, 2020, the C&F agents and distributors are, in turn, connected with a dealer network comprising of over 45,475 retail outlets, which are driven through a sales force of 566 personnel. It has entered into commercial arrangements with retail chains such as Metro Cash And Carry India Private Limited for the sale of its Pigeon branded products from several of their retail outlets in India. Further, it has also entered into agreements with e-commerce platforms such as Flipkart India Private Limited for the sale of its products on their portals. Outside of India, it exports its products which are manufactured by it to retail chains in the United States of America and Mexico. Its Gilma brand products are sold through exclusively branded outlets owned and operated by franchisees. As of September 30, 2020, there were 65 such stores spread across four states and 28 cities and towns, with a presence in the urban market in south India. Gilma stores are designed to be 'experience' stores.

## Objects of Issue:

The Offer comprises the Fresh Issue by SKL and an Offer for Sale by the Selling Shareholders..

## Offer for Sale

Each of the Selling Shareholders will be entitled to their respective portion of the proceeds from the Offer for Sale. The Company will not receive any proceeds from the Offer for Sale..

## The Fresh Issue

SKL proposes to utilise the Net Proceeds from the Fresh Issue towards funding the following objects:

- Repayment/pre-payment, in full or part, of certain borrowings availed by SKL; and
- General corporate purposes.



## Competitive Strengths

**A one stop shop for well recognized, award winning portfolio of kitchen solutions brands with a diverse range of products across consumer preferences:** SKL has grown from a single brand small LPG stove manufacturing company to become one of India's leading manufacturers of kitchen appliances, with revenue from operations of Rs.3,288.36 million and Rs.6,698.61 million for the six month period ended September 30, 2020 and Fiscal 2020, and a presence in 27 states and five Union Territories of India and 14 countries across the world. Its brand portfolio, comprising of the Pigeon, Gilma and BLACK + DECKER brands caters to the value, semi-premium and premium customer segments in the kitchen solutions industry, and allows its customers to engage with the brand specifically designed for their budget and lifestyle. Its award winning Pigeon brand is well established in the Indian kitchen appliances industry. As a result of its co-branding initiatives of over eight years with LPG companies such as Indian Oil Company Limited and Hindustan Petroleum Corporation Limited to utilize their sale and distribution channels, the Pigeon brand has enjoyed a wide customer outreach and continues to have a high brand recall value. In this regard, the Pradhan Mantri Ujjwala Yojana, which is a scheme of the Ministry of Petroleum & Natural Gas, GoI for providing LPG connections to women from BPL households, has enabled it to increase volume sales and reach the interior regions of the country. The existing market presence and strength of the Pigeon brand has been instrumental in enabling it to successfully enter into home solutions vertical with products like LED products in 2016.

SKL engages in a wide range of marketing and advertising activities, including in-shop displays, merchandising, kiosks, live demo stands, social media marketing, which enables it to maintain the popularity and recall value of its brand portfolio. It also maintain an in-house team of seven personnel who continuously engage with various publications, TV channels and other media to coordinate its marketing efforts. SKL has undertaken the diversification of its product portfolio on the basis of the needs of the customers, and it regularly seeks their insights and feedback to ensure that its product range is optimized to suit the needs of its customers.

## **Widespread, well connected distribution network with a presence across multiple retail channels and a dedicated after-sales network:**

The integration of SKL's supply chain and distribution network with its manufacturing facilities provides it with a competitive advantage over other players in the Indian kitchen appliances industry. Its manufacturing facilities in Bengaluru and Baddi are well connected with nine strategically located C&F agents. Additionally, it has 651 distributors in 27 states and five union territories of India as of September 30, 2020. The C&F agents and distributors are, in turn, connected with a dealer network comprising of over 45,475 retail outlets, which are driven through a sales force of 566 personnel as on September 30, 2020. In addition to independent third-party retail stores, it has also partnered with major Indian retailers for the sale of its products, and for Fiscal 2020, its products are available in retail chains such as Metro Cash And Carry India Private Limited. SKL has also partnered with e-commerce retailers such as Flipkart India Private Limited for the sale of its Pigeon branded products on their portals. Further, it supply its products to retail chains in the United States of America and Mexico and it also undertake original equipment manufacturing for retail chains in the United States of America under its brands. The Company strives to balance product availability and inventory levels such that it can continue to deploy resources in a value-creating manner, and believe that its wide presence generates economies of scale and contributes to the effective cost structure of the Company.

SKL strives to ensure that the quality of its products is complemented by the after-sales services provided to its customers across segments, through a dedicated centralized CRM, and a large team of in-house service personnel to cater to the requirements of its customers. It utilises a distributor management system (DMS), which helps the organisation to track secondary and tertiary sales and maintain inventory level at the distributor's centre. As of September 30, 2020, its servicing team comprised of 118 employees, with full in-house capabilities.

**Strong manufacturing capability with efficient backward integration:** The scale at which SKL undertakes the manufacture of its products, combined with its raw material sourcing, packaging, transportation practices and quality control, enables it to derive higher margins from the sale of its products. Its Bengaluru Facility is a large facility for the manufacture of kitchen solutions, which is spread over approximately 46 acres and five guntas out of which 30 acres and one gunta is available for future expansion. It is an integrated facility comprising of 12 manufacturing units, tailored to manufacture pressure cookers, non-stick cookware, hard anodized cookware, mixer grinders, induction cooktops, LPG stove, glass cooktops, IR thermometer and handy vegetable chopper. Further, the Company has also commenced manufacturing LED products in its Bengaluru Facility. For Fiscal 2020, it had an aggregate production capacity of 19.50 million units per annum and as of September 30, 2020, the aggregate production capacity increased to 38.40 million units per annum. It is also one of the few facilities in India to have a fully automated roller coating line for the manufacture of non-stick cookwares. Its manufacturing facilities are backward integrated. The backward integration of its manufacturing facilities has reduced its dependence on third party suppliers and OEMs for such components.

**Consistent focus on quality and innovation:** Quality is a pre-requisite for a positive consumer experience and long-term brand loyalty. This philosophy has formed the foundation of the expansion and diversification of its product portfolio since its inception. Its focus on quality is maintained at all stages - right from the sourcing of raw materials, which is undertaken from manufacturers to the product development and manufacturing stage, which is subject to a rigorous review and monitoring process undertaken at its Bengaluru Facility. For products which are sourced by SKL from third party OEMs, it has a dedicated sourcing team and quality assurance team based out of China, which closely monitors the quality of such products. Over the years, based on its experience it has focussed on investing in



experience based product innovations that are most relevant in creating the best consumer experience. The year on year expansion and optimisation of its product portfolio has also been innovative, and it has added segments based on shifts in consumer preferences and market demand. To further its efforts in innovation, in the past, it has also entered into tie-ups with foreign companies for technology enablement and tech knowhow agreements with them from Fiscal 2013 to Fiscal 2015. As a result of its focus on innovation, SKL developed the 'Super Cooker' which has a registered design and is customizable into products with multiple utilities. It has also developed the 'Super Storm Advanced' mixer grinder, with forced air cooling technology, and the 'Infinity' glass cooktops with a fastener free body.

**Professional management with successful track record and extensive experience in the kitchen solutions industry, and a young and dynamic workforce:** SKL is a professionally managed company with a track record of corporate governance and robust internal controls. Its strong corporate culture that originates from the founder of the Company, Rajendra Gandhi, who is a first generation entrepreneur with over 21 years of experience in the kitchen appliances and home appliances industry. It has a qualified and competent leadership team. While core functions are centralized, it has focused management teams as well as shared management teams which manage the different brand portfolios, and its product heads has significant expertise in their respective product categories. In addition to the experience of the senior management and staff, it benefit significantly from the youth and dynamism of its workforce, which comprises of a majority of young professionals

**Strong track record and financial stability:** SKL has maintained a strong track record of growth over the years through expansion of brand portfolio, distribution network, improved procurement costs and increase in sales growth. Its operational efficiencies and efficient supply chain network has resulted in better control of operational expenses and thereby enabled rise in profits after tax. Further, it has been able to capitalize on its existing logistics, supply chain network and backward integrated manufacturing facilities to utilize its capital efficiently.

## **Business Strategy:**

**Increase geographical reach and expansion of addressable market:** SKL continually seeks to enhance its addressable market through its network of 45,475 retail outlets, 651 distributors and nine C&F agents across the country, as of September 30, 2020. Its erstwhile sales channel comprised of super distributors and its business partners and was limited to the extent of its reach. However, since 2014, it has started appointing C&F agents to undertake stocking and distribution, enabling it to reach its customers faster by reducing transportation time, optimize inventory, and limit trade over-dues. Further, a large untapped customer base has surfaced with the advent of several Government initiatives such as Pradhan Mantri Ujwala Yojana, which provides for free LPG connections. These initiatives will provide SKL with an opportunity to increase its market share. As one of the leading cooktop manufacturers in the country it look forward to leverage this vast network of rural households.

**Scale up branding, promotional and digital activities:** SKL's wide spread presence and scale of operations allows it to increasingly focus on branding and promotional activities to enhance its visibility in the cookware and kitchen appliances industry. While its consumer brands are well established and enjoy a high brand recall amongst its customers, it seeks to continue to enhance brand awareness and customer loyalty through its promotion and marketing efforts such as increased advertising in print and social media, retail branding, product branding, hyperlocal activities, factory visits for its trade partners, substantially increasing its digital presence and engagements, generating contemporary educational content and engaging in brand associations.

**Expand portfolio in the existing product categories:** SKL's product portfolio under the brand Pigeon consists of four categories - cookware, cooktops and other solutions, small kitchen appliances and home utilities aiding different functions and utilities in the kitchen and home. It has consistently focused on expanding and optimising its product range to offer utility, a range of features and value for money. It seeks to utilize its research and development capabilities to develop new products to cater to the evolving requirements of a large customer base and cover newer customer segments. It proposes to expand its presence in existing product categories by increasing the emphasis on manufacturing a greater proportion of its products, and reducing its reliance on traded products.

**Invest in new plants and increase automation in existing manufacturing facilities:** SKL have two backward integrated manufacturing facilities in Bengaluru and Baddi with dedicated plants for each of its core product categories - LPG cooktops, aluminum pressure cookers, non-stick cookware, induction cooktops, handy vegetable chopper, floor mops and mixer grinders. These robust facilities with a constant focus on technology upgradation are equipped to manufacture a wide and diverse range of products, as well as several components used in its products. It proposes to increase the level of automation at its facilities as that would enable it to achieve greater efficiency in reducing time taken for and the cost of manufacturing its products, from design to commercial production and, in its in-house testing and quality assurance processes, resulting in higher profit margins. To enhance SKL's market share, it proposes to invest in new plants, with high degree of automation, specifically for the manufacture of new classes of products where economies of scales are rapidly evolving viz. electric irons, wet grinders, stainless steel pressure cookers, bucket mops etc. It also intends to focus on manufacturing value added products across product verticals ensuring its presence in each rung of the value chain. To further its aim of greater efficiency, it has also automated its roller coating unit in the Bengaluru Facility to increase productivity.



**Focus on and augment its LED consumer lighting business:** Owing to the increasing government initiatives to boost LED adoption and growing awareness regarding lower power consumption of LED lighting products, the LED lighting market is expected to grow significantly in India. SKL seeks to capture this growing demand for LED lighting products with its range of consumer lighting products including bulbs, battens, downlight and panels. In a short span of three years, it has leveraged the strength of its brand 'Pigeon' and its capabilities to scale up a large distribution network in the southern states of India. SKL will continue to introduce a wider range of LED lighting products for different end-use segments and expand to newer and broader geographies. Further, it is leveraging its manufacturing strength and has established a fully automated LED assembly unit for LED bulb and battens in its Bengaluru Facility.

**Increase exports:** During the six month period ended September 30, 2020 and in Fiscal 2020, SKL's export sales contributed to 17.90% and 7.64%, respectively, of its revenue from operations. With its manufacturing and technological competence in non-stick cookware, it is globally competitive to cater to both the developed and the developing markets. Its presence is currently spread across 14 countries including USA, Mexico, UAE, Qatar, Bahrain, Kuwait, Tanzania, Uganda, Nepal, Sri Lanka, Bangladesh, Oman, Ghana and Saudi Arabia. It seeks to expand its global reach, through constant innovation and increased customer acceptance of its products in international markets.

## Industry

### Rise Of The Indian Middle Class Leading To Changing Consumer Behavior

According to NCAER (National Council of Applied Economic Research), India's middle class population was 267 million (53 million households) in 2016. Further ahead, by 2025-26 the number of middle class households in India is likely to more than double from the 2015-16 levels to 547 million individuals (or 113.8 million households) representing about 37% of India's population.



By 2025, India is expected to rise from the 12th to the 5th largest consumer durables market in the world.

### Exhibit 8: Indian Households, by income (in US \$ '000)



Key driver of growth for the Indian consumer appliances market is the country's burgeoning middle class population, along with a relatively small proportion of its affluent class. This growth in India's consumer market demand is driven primarily by rising disposable incomes in Indian households, and easy access to credit which induces a growing purchasing power. Increasing electrification of rural areas, along with



rising influence of social media and popularity of online sales are also likely to aid growth in demand. Around two-thirds of the total revenue is generated from urban population and rest is generated from rural population.

In India, the greatest consumer spending in near future is expected to yield from the country's 'urban mass', which comprises 129 million working people with undergraduate degrees in non-labor intensive work, blue collar and migrant workers, with an annual average earning of over US \$3,200. The maximum consumer spending is likely to occur on food, housing, consumer durables, and transport and communication sectors.

Overall consumer spending in India is anticipated to grow at 14% (much higher than the anticipated annual global growth of 5.5%) and expand 3.6 times from US \$991 billion in 2010 to US \$3.6 trillion by 2020. By 2020, India will constitute 5.8% of global consumption more than double the 2.7% it now represents. (Source: CMIE). Significant increase in disposable income and easy financing schemes have led to shortened product replacement cycles and evolving lifestyles where consumer durables, including kitchen appliances, are perceived as utility items rather than luxury possessions.

#### Rural India – The Emerging Consumer Market:

There has been considerable improvement in living standards of rural population since the last few decades and, India's per capita GDP in rural regions has grown at a Compound Annual Growth Rate (CAGR) of 6.2% since 2000 (Source: [www.ibef.org](http://www.ibef.org)).

#### Emergence Of Digital India And Its Impact On Consumer Behaviour

As per the latest report from IAMAI (Internet and Mobile Association of India), as on December 2017, overall internet penetration is 35% of total population. The total number of Internet users in India was estimated to be 481 million in December 2017, a growth of 11.34% over December 2016 estimated figures. The number of internet users is expected to reach 500 million by June 2018. Urban India witnessed a growth of 9.66% from December 2016 and is estimated to have around 295 million internet users as on December 2017. On the other hand, Rural India witnessed a growth of 14.11% from December 2016 and is estimated to have around 186 million Internet users as on December 2017. As per a recent study by Google India, Internet is influencing consumer behavior as 7 out of 10 buyers know the exact brand and model they want to buy with the help of online research before entering the store. Also, 40% of the respondents claimed they took help of online information for making purchase decisions for technology products.

Even though widespread internet usage is still a relatively recent phenomenon in India, most observers agree that it is changing everything—social relationships, shopping habits, even societal norms. Internet is not just helping create awareness but is substantially impacting decisions of final purchases. Secondly, digital's impact is becoming pervasive across all consumer segments. India's initial digital consumers were male, millennial, and mostly metro-based. The future looks very different. It is gradually impacting decisions in small towns and rural India, as well and mobiles are emerging as a strong medium to connect to the Internet. By 2020, half of all internet users will be rural, 40% will be women, and 33% will be 35 or older.

Third, internet penetration has been and continues to be mobile first. Four out of five users go online with mobile devices. Today, these devices are a mix of smartphones (with 3G or better connections) and feature phones with primarily 2G connections, but the trend is toward faster connections and more capable devices. Internet penetration in rural India will grow with introduction of low cost smartphones coupled with affordable 3G/4G data tariff. As exposure to internet increases, there will be greater usage of e-commerce across India.

Indian E-Commerce market growth is estimated to reach the US \$200 Billion-mark and M-Commerce will contribute to 73% of the overall market by 2025 led by huge investments across the sector. Digital transformation has led to a changing business environment across all operations in an organization. Organizations across various verticals and processes are adopting digital technologies to leverage the opportunities it provides in increasing efficiencies across areas like customer experience, operational processes and business models.

Much of the growth in the e-commerce industry in india, has been triggered by increasing internet and smartphone penetration. By 2022, smartphone users are expected to reach 859 million, whereas, E-commerce sector is expected to grow 1,200% by 2026. Smartphone shipments in India increased 8% y-o-y to reach 152.5 million units in 2019, thereby making it the fastest growing market among the top 20 smartphone markets in the world.

Thus, 'Digitization' by investing in right technologies is the first step toward accelerating business process and providing global consistency in services. Organizational level strategy outlining the use and Return on Investment (ROI) across various digital technologies will serve stakeholders across the value chain and speed up delivery, which is critical for growth and better customer experience.

A young demographic profile, rising internet penetration and relative better economic performance are the key drivers of this sector. The Government of India's policies and regulatory frameworks such as 100% Foreign Direct Investment (FDI) in B2B E-commerce and 100% FDI under automatic route under the marketplace model of B2C E-commerce are expected to further propel growth in the sector. As per the

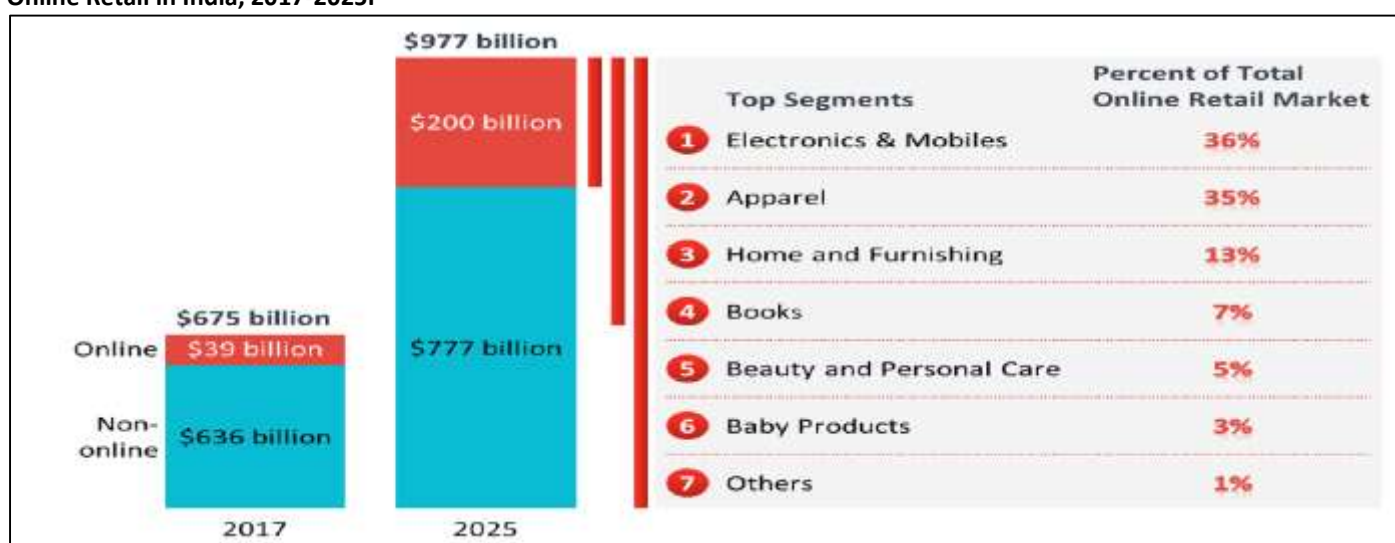


new FDI policy, online entities through foreign investment cannot offer the products which are sold by retailers in which they hold equity stake.

In February 2019, the Government released the Draft National E-Commerce Policy, which encourages FDI in the marketplace model of E-commerce. Further, it states that the FDI policy for E-commerce sector has been developed to ensure a level playing field for all participants. According to the draft, a registered entity is needed for E-commerce sites and apps to operate in India. Government also proposed the National E-commerce Policy to set up the lawful agenda on cross-border data flow – no data will be shared with foreign Governments without any prior authorisation from the Indian Government. Through its Digital India campaign, the Government of India is aiming to create a trillion dollar online economy by 2025. Access to a variety of products online and enhanced shopping experience would drive the e-commerce industry. Apart from mobile phones and apparel, Electronic Consumer Appliances are expected to be the most significant categories in e-commerce.

E-commerce market expected to reach US \$200 billion by 2025, with Consumer Electronics as the top segment contributing 36% to the online retail market. Average spend per online shopper expectedly will rise to US \$444 by 2025. Cash on Delivery (CoD) will be most preferred payment option for next 5 years, although a significant increase in Mobile wallets will take place

## Online Retail in India, 2017-2025F



The rise of smartphones is also expected to boost m-commerce sales while innovation and customer experience would lead to greater penetration in markets across India. The evolving needs of the consumer are focused toward a quick and easy shopping experience. Manufacturing companies in India are also investing heavily in technologies to stay ahead, vis-à-vis competition.

While researching online, before making a purchase, consumers primarily look for prices of the products, followed by product photographs, specifications, videos, product reviews, locating stores and visiting product comparison sites. While it is true that the technology vertical is one of the early adopters of digital advertising medium there is also tremendous scope and opportunity for manufacturing industry players to fully leverage the digital medium to engage buyers online. E-commerce provides a huge selling platform for consumer appliance manufacturers. With the advent of e-commerce platforms like Amazon, Flipkart, Paytm and Snapdeal in India, the online channel is evolving as the fastest growing channel for sales of kitchen appliances. This is largely driven by increasing internet & smartphone penetration, heavy discounting of products & availability of options to choose from. Top brands in the market have separate online sales & marketing strategy for their kitchen appliance sales.

## India Government's Policies Favourable For The Consumer Appliances Industry

### Implementation of Goods and Services Tax (GST) in 2017

As per current GST structure, the lower tax brackets of '5%', '12%' and '18%' are the standard rates for commonly used Indian kitchen items. The highest tax slab of 28% will be applicable to items, which were earlier taxed at 30-31% (excise duty plus VAT). GST places Large Domestic Appliances and Consumer durables category in the highest tax slab of 28%.

### Transformational Shift from 'Unorganized' to 'Organized' Sector in Indian manufacturing industries

On the supply side, implementation of GST aims at reducing several tax burdens on manufacturers and fosters their growth through more production. Key industry participants from the Indian manufacturing sector have acknowledged the introduction of GST is expected to be very beneficial to the organized industrial sector, and that it's a huge attempt by the government toward formalizing a large unorganized part of the manufacturing sector and the economy in general.



## **‘Make in India’ initiative:**

The Indian manufacturing industry has emerged as one of the high growth sectors in India, and the launch of ‘Make in India’ initiative further propelled and gave this sector the necessary boost. To put more thrust on ‘Make in India’ drive, in the 2018 union budget, the government increased the basic custom duty on some key electronic items, which includes LED lamps, one of the product segments catered to essentially by Kitchen appliances manufacturing companies like Stove Kraft Limited.

## **Foreign Direct investment (FDI) in India:**

To fulfil its objective of reducing dependence on imports by 2020, the Govt. of India has allowed 100% FDI in the electronics hardware manufacturing sector through the automatic route and 51% FDI in Multi-brand retail. Under the automatic route in the ESDM (Electronic System Design & Manufacturing) sector, 100% FDI is allowed, with Special preference to foreign companies setting up manufacturing units in India. This proved to be a key attraction for foreign investors, and also enabled consumer appliance manufacturers, especially those in the Kitchen Appliances industry.

## **Increasing Residential Electricity Consumption in Indian households**

Majority of kitchen appliances – both large and small types, are electricity driven; electricity consumption in Indian homes has tripled since 2000. The percentage of households with access to electricity has increased from 55% in 2001 to more than 80% in 2017.

## **India Government’s initiatives toward enhancing rural electrification**

The India government has recently approved the ‘Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY)’, an integrated scheme covering all aspects of rural power distribution. This has led to intensive electrification of Indian villages from 14,956 in 2013-14 to 63,330 in 2016-17, i.e. increase of 5 times. The overall intensive electrification is expected to bring in overall socio-economic development in rural areas, mainly in terms of improved connectivity to all villages and rural households, more access to mass communication media (radio, telephone, television) and increased agricultural productivity, among others.

## **The Indian Kitchen Appliances Market Analysis**

Indian appliance and consumer electronics (ACE) market reached INR 2.05 trillion (US \$31.48 billion) in 2017. It is expected to increase at 9% CAGR to reach INR 3.15 trillion (US \$48.37 billion) in 2022. Urban markets account for the major share (65%) of total revenues in the consumer durables sector in India. The key ‘Large’ and ‘Small’ Cooking Appliances categories, which are covered in the scope of this report, the current market value is estimated at about INR 148.5 billion, which is set to reach INR 238.0 billion by end 2022, growing at a CAGR of about 9.9%.

The kitchen appliances industry has traditionally been skewed toward unorganized players while a handful of organized players have dominated major regions and key urban markets. Urban markets account for a major share of total revenues in the consumer durables sector in India whereas rural markets have only now begun to contribute recently.

Considering ‘zonal’ market representation, ‘South’ India contributes to about 35% of the total kitchen appliance market in India, followed by ‘West’ zone. ‘East’ zone, currently, has the least penetration of Kitchen appliances market with ~10-12% contribution, where, high-value and niche products like food processor, air fryer etc. have negligible sales due to affordability issues which pose a challenge for growth in the region.

Major players currently operating in the Indian kitchen appliances market include TTK Prestige, Stove Kraft Limited, Gandhimathi Appliances Ltd, Hawkins, Bajaj Electricals, Preethi Industries Ltd., Glen, Faber, Kaff Appliances, Inalsa, IFB, Panasonic, and Phillips, etc.

## **Key Drivers: Indian Kitchen Appliances Market**

**Lifestyle:** Industry experts believe the most important current market trend is the stylizing of cookware in order to transform the product from a functional kitchen tool to making it a part of an aspirational lifestyle, especially for affluent, urban consumers. Consumers moving into new houses or remodelling their existing home often prefer the latest collections to match the interior of their kitchens.

**Need for space utilization:** In earlier times, cookware used in the kitchen used to require a lot of space, it was difficult to handle and heavy; thus emerged the concept of ‘modular kitchen’. Manufacturers have now introduced compact designs and portable cookware especially for small homes, apartments and traveling purposes. Minimalism is the latest trend, the appearance of minimalism—sleek design, neutral colors, matte finishes—also appeals to consumers because it veils the appliances’ convoluted interiors, making the complex look simple.

**Change in cooking approach:** Apart from the cookware, there has also been a change in the cooking approach. Cooking is no more restricted to women. Earlier women were considered as the synonym for home cooks, but the picture has changed today; the role of the cook is played by men as well and it is equally accepted in the society.



**Health and environment concerns:** As the society changed it also helped to change consumption patterns. Now consumers are gradually moving toward the healthy path. Indians are looking for healthier options not only in their choice of food but also in their choice of kitchen appliances. Initially, India readily accepted Teflon coated Non-stick cookware as this cookware uses less oil. A similar seeking for natural organic food, helped cold pressed juicers gain a foothold in the market as its process doesn't destroy enzymes and nutrients in a juice. Another important trend is the growing tendency to question the safety of non-stick coatings in cookware. Leading Kitchen appliance manufacturers such as Stove Kraft are working diligently to create a coating that is safe to use for the households. For health safety concerns, consumers have also started avoiding the use of plastic. Researches have proved that the toxic compound found in the plastic causes health problems like cancer, obesity infertility etc. Such aspirations include catering to 'green' concerns for environmental friendliness and the health and the safety of the products offered.

**Technological advancement:** The kitchen appliances industry is increasingly becoming a technology driven market. Very often there are new innovations and updates expanding the industry. Technological evolution is transforming the supply of products such as hoods or hobs, which become more and more hi-tech and connected. In addition, manufacturers of major and small appliances have conceived new devices that meet the need of consumers to live better. New technologies are applied to cooking hobs like even heating and temperature controls of the burners, easy cleaning, and hoods/chimneys with more efficient ventilation mechanisms etc. Consequently, the life cycle of products has been considerably shortened and accordingly, the need for a continuous renewal is felt more frequently.

**Growth of E-commerce and easy financing options:** Current market trends are reflective of what's on the customer's mind as they choose how to equip and furnish their homes. It all started with Non-stick cookware and 50 years later, the cookware market keeps on developing. This market has advanced on the back of rising disposable income, growing sales infrastructure in the form of specialist stores and innovations, coupled with e-commerce players, increasing popularity of modular kitchens and convenience associated with such appliances. More than just satisfying the functional needs of the Indian consumer, modern retail in this sector has emerged to cater to the diverse needs of the customer – convenience, fashion or price.

Besides, e-commerce companies also offer a range of kitchen appliances with easy financing, like low EMI and discounts to generate more sales, which also contribute toward increased demand. As per industry expert's views, Modern Retail chains such as Big Bazar, Croma, Reliance Digital, etc. significantly contribute toward increasing product awareness of modern consumer appliances among consumers, thereby boosting the demand for kitchen appliances in India.

**Mass Media:** Consumers are now more aware of cookware through reality programs and cooking shows on Television, and modern format retail chains today provide a wide range of alternatives at each value point in variety of consumer appliances. Increasing number of cooking based shows on television is also encouraging people to buy food preparation appliances and to try out new recipes. Mass manufacturing has also empowered cookware to be delivered at lower costs, which in turn has extended the range of customer choice.

**Influence of Social Media:** To take this approach at the global level, social media also played a very important role. In this technological savvy world, people have started experimenting and with the help of media taking it viral. Latest apps have also acted as a key support to help people across the world to promote their various ideas, recipes, innovations, methods and style of cooking digitally and reaching out for the maximum exposure possible.

**Property developers and builders as influencers:** are increasingly providing built-in kitchens (Sometimes as an option) in order to have a competitive edge. If not built-in kitchens, developers are providing the modularity to have a built-in kitchen. The concept of hiring a third party Kitchen designer is also on the rise especially in urban pockets. Also there has been an increase in the number of Kitchen specialty stores, Premium retailers and Multi branded outlets which have been a great influence in the growth of kitchen appliances, especially large, built-in appliances.

**Increase in premium residential constructions:** Share of premium residential construction was 7% in 2010, has increased to 10% in 2015 giving rise to higher adoption of modern kitchen appliances.

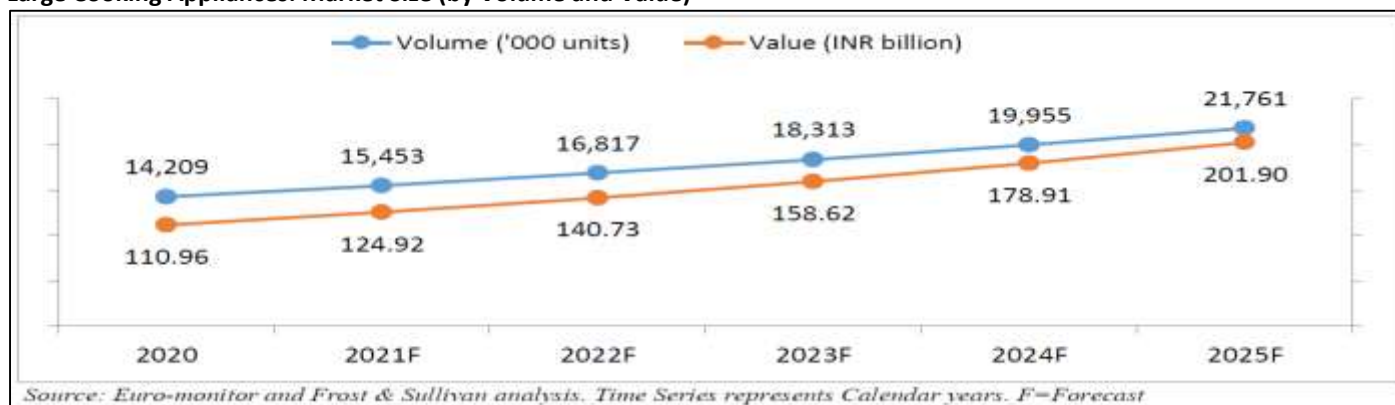
#### **Large Cooking Appliances:**

Large cooking appliances include Cooker Hoods, Cooking Hobs (either built-in or freestanding) and Cooktops. Retail Volume sales of Large Cooking Appliances category as a whole, has witnessed a growth at a CAGR of 6.0% through 2015-2020, to reach sales of 14.2 million units in 2020. In terms of Retail Sales 'Value' growth, the category has grown at an even higher CAGR of 9.2% through the same period, to reach sales of about INR 111 billion in 2020.

The overall growth momentum of the 'Large Cooking Appliances category' Retail sales is expected to continue the forecast period of 2020 to 2025. In terms of Retail Volume, the category is expected to grow at a CAGR of about 8.7% through 2021-2025, to clock 21.7 million unit sales by end of 2025. Retail Value sales, also is expected to continue on its higher growth trajectory, at a CAGR of 12.5% through 2021-2025, to reach INR 201 billion by end of 2025.



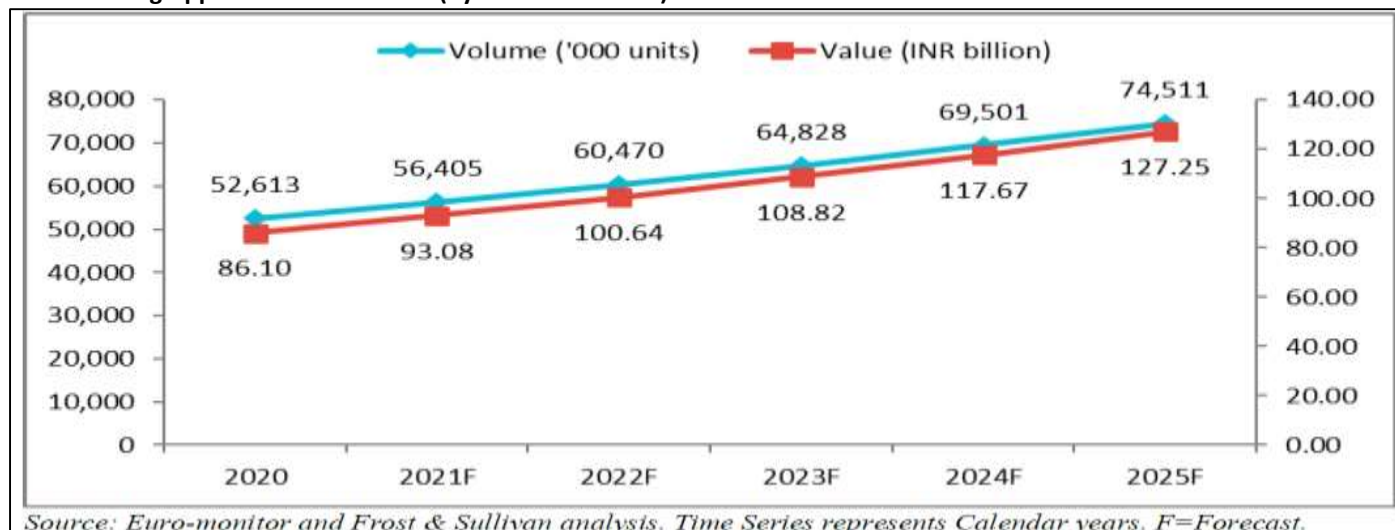
## Large Cooking Appliances: Market Size (by Volume and Value)



## Small Cooking Appliances

Successful marketing by leading companies TTK Prestige, Stove Kraft Limited, Bajaj Electricals etc. and others has created a market for small cooking appliances in India

## Small Cooking Appliances: Market Size (by Volume & Value)



Small Cooking Appliances are also almost exclusively sold through Store-Based retailing. In 2020, 97.4% of total retail volume sales were registered through Store-based retailing, and the remaining 2.6% only was sold through Non- Store based retailing.

## Brief Overview Of Non-Stick Cookware Market In India

The term 'Non-stick' in cookware, usually refers to the surface which is coated with a synthetic polymer called Polytetrafluoroethylene (PTFE) or with ceramic, anodized aluminium, enamelled iron which decreases the ability of other materials to stick to it. The term 'Teflon' coating has become synonymous with Non-stick coating in the market. Hence, non-stick cookware is often also addressed as Teflon coated cookware.

In 2020, Stove Kraft Ltd. sold about 0.77 million non-stick cookware. It sells 'Non-stick cookware' mainly through its 'Pigeon' brand route. In terms of Retail Sales value, Stove Kraft Ltd. registered total sales of INR 776 million for its 'Non-Stick Cookware' category through brand Pigeon.

Most popularly used Non-stick cookware includes Tawa, followed by Kadai and frying pan. The latest trend-setting Hard anodized and ceramic non-stick cookware register prominent usage in Southern India, along with regional cuisine-making cookware like 'Appachetty' and 'Paniyarakkal'.

Nirlep Appliances Limited, established in 1968, marked the launch of Non-Stick technology in India. Today, Nirlep and Stove Kraft Limited are the only players to have a roller coating line. While Stove Kraft Limited's roller coating line is completely automated, that of Nirlep is only partially automated.



In South India, TTK Prestige dominates the market, followed closely by Stove Kraft Limited, both having very strong brand equity in the region

Stove Kraft Limited enjoys a prominent position in the Non-Stick cookware market, especially in the Southern region. Stove Kraft Limited also offers a special range of non-stick cookware which is induction cook-safe. The range includes the usual Pans, Tawa, and Pots and also offers special cookware like Appachetty and Paniyarakkal, focussed on catering to the regional cuisine of Southern India.

In its continuous bid for innovation aimed at product efficiency and user convenience, Stove Kraft Limited's latest offerings include a new MIOTM non-stick cookware range, which is developed using latest Italian technology that ensures high durability and smoothness of the products. The cookware in this range has 5 layer 'Scandia' coating, comes with 1 year Warranty and includes Tawa, Kadai, Appachetty, Square Griddle as well as 2, 4, 6 and 8 piece gift sets.

## Key Concerns:

- The trademark for marquee brand 'Pigeon' is the subject matter of litigation, and there can be no assurance that SKL will be able to protect the trademark in the future.
- SKL sources raw materials from third parties with whom it does not have long term contract or price guarantee.
- Rely heavily on brand portfolio, and inability to successfully maintain and promote brand portfolio may adversely affect SKL's results of operations.
- Business and results of operations have been, and may continue to be, adversely affected by the ongoing COVID- 19 outbreak and associated responses.
- SKL's operations are significantly dependent on third parties for the distribution and sales of its products.
- Rely on third party OEMs for the sourcing of some of its products, which are not manufactured by SKL in India.
- Manufacturing facilities are situated on land which may be subject to regulatory action and litigation.
- Expansion into new geographic regions and markets may subject SKL to various challenges.
- The BLACK + DECKER Brand License Agreement contains certain onerous provisions and a failure to comply with certain provisions could result in adverse consequences including an event of default.
- SKL's sales may be negatively impacted by increasing competition from companies and local firms with products similar to its.
- SKL's Group Company SAEPL is engaged primarily in manufacturing, importing and exporting of components for domestic and other appliances. Any conflict of interest which may occur between the business of SAEPL and SKL may adversely affect its business, prospects, results of operations and financial condition.
- SKL has experienced negative cash flows from operating activities in the past. Sustained negative cash flow could impact its growth and business.
- There may be a delay in production at, or shutdown of, any of its manufacturing facilities or at any of the third party manufacturing facilities SKL uses for the sourcing of its products and packaging material.
- Inability or failure to maintain a balance between optimum inventory levels and its product offering may adversely affect the business, results of operations and financial condition.
- Due to the geographic concentration of SKL's sales in the Southern regions of India, its results of operations and financial condition are subject to fluctuations in regional economic conditions.
- Business is operating under various laws which require SKL to obtain approvals from the concerned statutory/regulatory authorities in the ordinary course of business and its inability to obtain, maintain or renew requisite statutory and regulatory permits and approvals for its business operations could materially and adversely affect the business, prospects, results of operations and financial condition.



- Entered into retail and franchisee agreements for the sale of products, and such agreements may impose onerous conditions upon SKL.
- SKL has no control over its Associate, PAPL, and has not been able to obtain any information from PAPL for the purposes of the Offer for the purposes of this Red Herring Prospectus.
- If SKL is unable to service its debt obligations in a timely manner or to comply with various financial and other covenants and other terms and conditions of its financing agreements, it may adversely affect the business, prospects, results of operations and financial condition.
- SKL may be exposed to potential liabilities from any personal injury claims alleging any deficiency in its products or in counterfeit products of an inferior quality.
- Inability to manage growth could disrupt the business and have an adverse effect on SKL's profitability.
- SKL's retail business is subject to seasonal volatility, which may affect the results of operations and financial condition.
- Uncertain nature regarding the kitchen cookware appliances market, economic conditions and other factors beyond SKL's control could adversely affect demand for its products and services, its costs of doing business and its financial performance.
- Any disruptions in logistics or supply chain network and other factors affecting the distribution of SKL's merchandise could adversely impact its operations, business and financial condition.
- SKL has recently entered markets for non-core products, in which it has limited experience.
- Business depends on the performance of its information technology systems and any interruption or abnormality in the same may have an adverse impact on SKL's business operations and profitability.
- The emergence of modern trade channels in the form of hypermarkets, supermarkets and online retailers may adversely affect SKL's pricing ability, and result in temporary loss of retail shelf space and disrupt sales of kitchen appliances, which may have an adverse effect on its results of operations and financial condition.
- Depreciation of the Rupee against foreign currencies may have a material adverse effect on SKL's results of operations and currency exchange rate fluctuations may affect the value of the Equity Shares.
- Increased environmental regulation and changing consumer environmental awareness could affect SKL's operations.
- A slowdown in economic growth in India could cause SKL's business to suffer.
- Financial difficulty and other problems in certain financial institutions in India could have a material adverse effect on SKL's business, results of operations, cash flows and financial condition.
- SKL may be affected by competition laws, the adverse application or interpretation of which could adversely affect its business.

## Profit & Loss

Particulars (Rs in Million)	H1FY21	FY20	FY19	FY18
Revenue from Operations	3288.4	6698.6	6409.4	5289.5
Other Operating Income				
Other Income	6.7	30.5	16.6	56.3
<b>Total Income</b>	<b>3295.1</b>	<b>6729.1</b>	<b>6426.0</b>	<b>5345.9</b>
Total Expenditure	<b>2837.7</b>	<b>6360.7</b>	<b>6111.2</b>	<b>5189.8</b>
Cost of materials consumed	1600.5	3232.4	3175.4	2411.2
Purchase of stock-in-trade	614.8	1287.6	1326.0	1203.3
Changes in inventories of finished goods, work-in-progress and stock-intrade	-70.1	-101.3	-114.8	-79.0
Excise duty	0.0	0.0	0.0	53.3
Employee benefits expense	312.5	820.1	698.0	590.9
Other expenses	380.1	1121.9	1026.6	1010.1
<b>PBIDT</b>	<b>457.4</b>	<b>368.4</b>	<b>314.8</b>	<b>156.1</b>



Interest	101.0	209.0	179.2	169.4
<b>PBDT</b>	<b>356.4</b>	<b>159.4</b>	<b>135.6</b>	<b>-13.3</b>
Depreciation	68.7	124.1	123.4	112.3
<b>PBT</b>	<b>287.8</b>	<b>35.3</b>	<b>12.2</b>	<b>-125.5</b>
<b>Tax (incl. DT &amp; FBT)</b>	<b>0.0</b>	<b>3.6</b>	<b>4.9</b>	<b>-5.4</b>
Current tax	0.0	3.6	4.6	0.0
Current tax expense relating to prior period / year	0.0	0.0	0.3	-5.4
Taxes for earlier year	0.0	0.0	0.0	0.0
<b>PAT</b>	<b>287.8</b>	<b>31.7</b>	<b>7.4</b>	<b>-120.2</b>
EPS (Rs.)	11.6	1.3	0.3	-6.4
Equity	247.2	247.2	247.2	189.0
Face Value	10	10	10	10
OPM (%)	13.7	5.0	4.7	1.9
PATM (%)	8.8	0.5	0.1	-2.3

(Source:RHP)

## Balance Sheet

Particulars (Rs in Million)	H1FY21	FY20	FY19	FY18
<b>Non-current assets</b>				
Property, plant and equipment	1995.7	1928.9	1787.2	1821.5
Capital work-in-progress	6.6	42.3	9.5	6.1
Intangible assets	34.3	3.0	4.7	6.3
Intangible assets under development	0.0	33.4	7.8	0.0
<b>Financial assets</b>				
Other financial assets	37.5	50.3	51.0	38.0
Non-current tax asset (net)	2.2	2.5	46.6	47.1
Other non-current assets	150.3	18.2	13.7	30.9
<b>Total Non-Current Assets</b>	<b>2226.5</b>	<b>2078.5</b>	<b>1920.4</b>	<b>1949.9</b>
<b>Current assets</b>				
Inventories	1366.3	1,165.94	974.14	1,051.38
<b>Financial Asset</b>				
Trade receivables	1036.3	1030.3	896.6	795.5
Cash and cash equivalents	52.9	150.1	285.2	4.0
Bank balances other than (iii) above	47.8	44.1	29.6	33.8
Loans	18.4	3.5	4.5	0.3
Other financial assets	27.6	13.3	19.1	10.8
Other current assets	209.2	227.2	127.8	90.7
<b>Total current Assets</b>	<b>2758.5</b>	<b>2634.4</b>	<b>2336.9</b>	<b>1986.5</b>
<b>Total Assets</b>	<b>4985.0</b>	<b>4712.9</b>	<b>4257.3</b>	<b>3936.4</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Equity share capital	247.2	247.2	247.2	189.0
Other Equity	-546.6	-849.0	-886.6	-1990.0
Non-Controlling Interest	0.0	2.3	2.2	2.1
<b>Total Equity</b>	<b>-299.4</b>	<b>-599.5</b>	<b>-637.3</b>	<b>-1798.9</b>
<b>Non-current liabilities</b>				
<b>Financial liabilities</b>				
Borrowings	2054.4	2048.3	2100.3	3113.1
Other financial liabilities	74.1	108.3	96.0	148.3
Provisions	64.1	62.7	46.1	34.1
<b>Total Non-current liabilities</b>	<b>2192.5</b>	<b>2219.3</b>	<b>2242.4</b>	<b>3295.5</b>
<b>Current liabilities</b>				
<b>Trade payables</b>				
Borrowings	941.3	1220.6	999.4	809.6
Lease liabilities	2.6	2.5	0.0	0.0
Trade payables				
<i>Total outstanding dues of micro enterprises and small enterprises</i>	<i>36.2</i>	<i>46.6</i>	<i>59.9</i>	<i>40.3</i>



<i>Total outstanding dues of creditors other than micro enterprises and small enterprises</i>	<i>1725.2</i>	<i>1462.8</i>	<i>1281.1</i>	<i>1411.3</i>
Other financial liabilities	312.2	292.0	237.7	110.2
Provisions	18.2	16.8	15.0	16.1
Other current liabilities	56.3	48.4	53.9	52.2
Current tax liabilities (net)	0.0	3.6	5.1	0.1
<b>Total Current Liabilities</b>	<b>3091.9</b>	<b>3093.2</b>	<b>2652.2</b>	<b>2439.8</b>
<b>Total Liabilities</b>	<b>5284.4</b>	<b>5312.5</b>	<b>4894.6</b>	<b>5735.3</b>
<b>Total Equity and Liabilities</b>	<b>4985.0</b>	<b>4712.9</b>	<b>4257.3</b>	<b>3936.4</b>

(Source:RHP)

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