

Consumer Durables Industry

Festive season of 2019 – Brings cheers to consumer durables manufacturers and retailers led by steady sales!

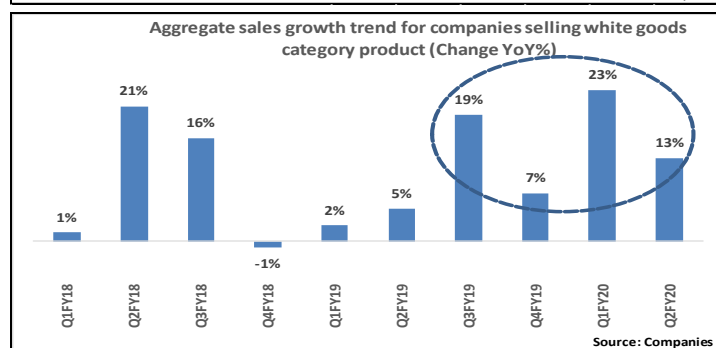
The festival season for 2019 saw many consumer durable manufacturers and retailers reporting a positive growth in sales and management commentary during the Q2FY20 post earnings call also indicated a positive outlook for retail sales during the festive month of October 2019. While majority of the sales growth came at a cost where manufacturers, retailers and consumer durable financing companies were doing the extra bit to woo consumers by offering them extended EMI schemes along with a host of freebies, cash back offers and much more. While, there was a mood of desperation as many consumer durable brands and retailers saw negative sales growth in the month of August and September 2019, the recently concluded Dussherra and Diwali sales in the month of October 2019 saw a ~15-20% YoY increase in sales for most consumer durable manufacturers and retailers. While, the growth was lower than 27% YoY growth, the industry had witnessed the year before during the festive season, the positive growth witnessed in the month of October gave a sigh of relief to many consumer durable manufacturers considering the severe slowdown in consumption seen in the preceding months. (Source: Business Today article dated 19 November 2019 "Premium products, lower prices drive growth in consumer durables this festive season"). **The festive season for India— starting with Onam in Kerala covering Navratri, Durga Puja, Dussehra, Karva Chauth, Dhanteras and Diwali — is the biggest consumption period in India, contributing about ~35-40% of annual sales of most consumer-facing companies. Thus, we believe, revival of sale during the recently concluded festive season augurs well for the industry.**

Sales for most of the consumer durable companies saw steady growth in Q2FY20 despite high base

Q2FY20 results for most of the consumer durable companies were better than market expectation. This was largely driven by steady growth in topline led by sustained buying in online platform (as indicated in Festive season sale for Amazon & Flipkart), rationalization of inventory in retail channel before festive season leading to higher factory sales and various promotional activities and easy financing schemes. Also, management commentary indicated that Q2FY20 demand was largely driven by low-priced entry-level products due to softness in the economy, and this was also visible in the form of higher sales growth for Voltas (~44% in H1FY20) vs industry growth for Room Air Conditioners –RAC (~33% YoY) and also steady growth witnessed for companies with product categories generally at MRP of Rs.10000 and less. Apart from these, improving distribution reach, innovative product launches and plugging of portfolio gap (by Blue star and IFB in case of front-load washing machines, and Blue star in high-end refrigerators), entry into new product categories like dishwashers, air purifiers, water purifiers by many industry players like Havells, Bajaj Electric, Voltas and Blue star also led to sustained topline growth for the companies. On the pricing front, management for Blue star and Voltas highlighted that intense competitive intensity led to muted pricing growth for the AC industry, however, improving mix towards high priced inventor ACs led to some uptick in company level realization. IFB on the other hand guided that it undertook ~5-6% price hike in two phases for its Microwave and other product category on the back of increasing cost structure largely impacted by rupee depreciation.

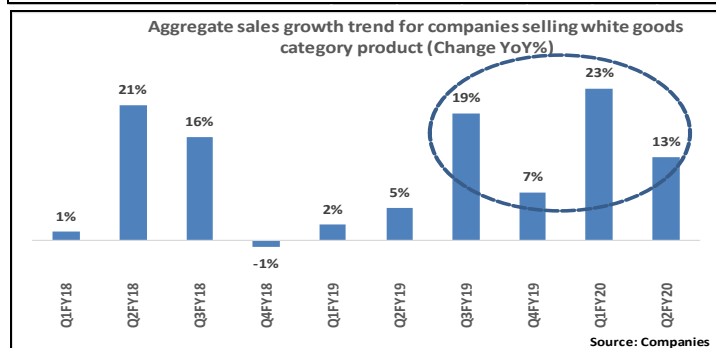
Sales Growth for companies selling white goods category (Change YoY%)						
Companies	Q2FY18	Q2FY19	Q2FY20	H1FY18	H1FY19	H1FY20
Voltas CD	15%	8%	19%	4%	1%	39%
Blue Star CD	8%	9%	10%	12%	2%	9%
Whirlpool	37%	3%	18%	24%	8%	19%
IFB Ind	30%	6%	8%	24%	8%	12%
Hitachi	11%	9%	9%	7%	-3%	16%
Lloyd Consumer (Havells from Q1FY18)	-7%	0%	-2%	-40%	-3%	3%
Total	21%	5%	13%	8%	3%	19%

Source: Companies



Sales Growth for companies generally selling product in less than Rs.10000 MRP category (Change YoY%)						
Companies	Q2FY18	Q2FY19	Q2FY20	H1FY18	H1FY19	H1FY20
Bajaj Electrical Consumer Durable segment	-9%	25%	9%	-12%	26%	20%
Havells Consumer Durable segment	1%	42%	20%	1%	40%	22%
TTK Prestige	3%	7%	4%	-1%	11%	4%
Symphony	22%	21%	22%	23%	-1%	53%
V-Guard Consumer Durable & Electronics	20%	5%	0%	9%	9%	9%
Total	3%	19%	10%	-0.1%	19%	18%

Source: Companies



(Note: Less than Rs.10000 MRP categories typically include companies manufacturing fans, lights, Water Heater, Water Purifier, Electric irons, Stabilizers, Inverters, Air Coolers, kitchen appliances like gas stoves, mixer grinders, juicer, cookware, cookers, amongst others).

Strong festive sales coupled with rationalization of inventory and financing offers to result in sustained growth going ahead

The recent slowdown seen in discretionary spending on electronics, which saw sharp decline in sales in the last few months of August and September 2019, seems to have rebounded in the month of October 2019. Media reports are suggesting factors like e-commerce festive discounting and sale period, GST rate cut on more than 50 goods in July 2019 and deeper penetration of consumer finance were the main reason for revival during the festive season. In the news headline recently, many consumer durable companies have indicated strong growth for most of the categories.

LG Electronics (Source: The Hindu report dated 1 Nov 2019)

"We are witnessing a robust growth across categories. The overall growth is around 35%. Especially for premium products, the growth is very impressive," said Vijay Babu, vice-president — Home Appliances, LG Electronics India.

Godrej Appliances (Source: Business Today article dated 12 November 2019)

Godrej Appliances business head Kamal Nandi told the daily that the overall festive period - covering Onam, Durga Puja, Dussehra and Diwali - saw a 7% jump in appliance sales despite the Kerala floods, increased fuel prices and negative sentiments around rupee-dollar rates. "Premiumisation drove sales, even for entry-level products and up-country markets, with prices lower by 4% as compared to summer," he added.

Croma (Source: The Hindu report dated 1 Nov 2019).

Ritesh Ghosal, CMO, Croma, Infiniti Retail Ltd. said, "The festive season has been good, we have seen a growth of more than 20% this festive season compared to last year."

"Appliances has been one of our fastest growing category with a growth rate of 27% recorded during this period. Refrigerators and washing machines have been the key drivers for the same. For TVs, we have seen a good surge in demand for large screen TVs, that is, 43 inches and above," he added.

Washing machines, refrigerators, 2-in-1 laptops, wearables have also done 'pretty well', he added.

"As consumer confidence has been declining, so has demand. July-August was the worst period with 15% decline in footfalls over the previous year. Starting September, footfalls have improved after the government made certain announcements in the area of credit, direct taxes," he said.

Vijay Sales (Source: CNBC report dated 30 Oct 2019)

"We have seen a 7-8 percent growth this festive season. We saw a drop in purchases of ACs this year owing to the extended monsoon but televisions and smartphones did well this year," said Nilesh Gupta, MD, Vijay Sales.

Runwal Developers, R-City Mall (Source: The Hindu report dated 1 Nov 2019).

Rajiv Malla, CEO, Malls, Runwal Developers said, "A higher consumption is being recorded for white goods at R City Mall since September. Our retail partners in the space of white goods have reported over 12% growth this season. There has been a high demand for electronics such as LED TVs, vertical door refrigerators, washing machines and microwaves during this festive season."

"Basis the pattern observed in the previous years, we are hopeful that consumption will continue to grow over the next few months," he said.

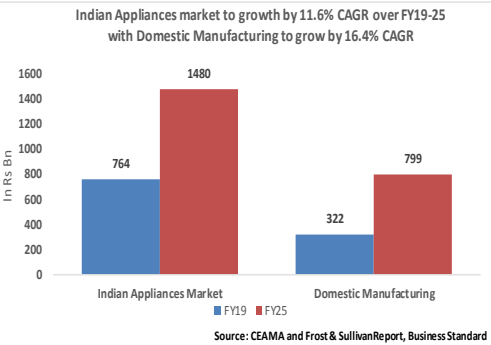
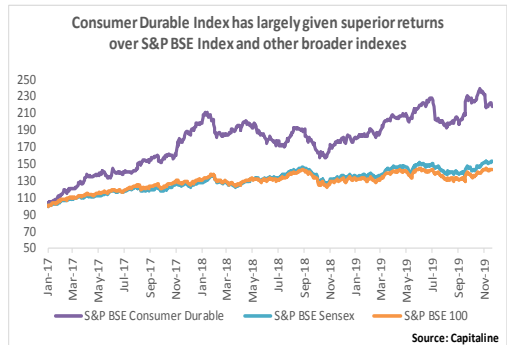
E-Commerce players (Source: Live Mint report dated 8 Oct 2019).

E-commerce firms, including Flipkart and Amazon, have clocked USD 3 bn (Rs.190 bn) in gross merchandise value (GMV) during the six-day festive sales, shows a report released by market research firm RedSeer Consulting. The report claims that the combined festive sales in 2019 in terms of GMV are 30% higher than what the two companies generated in 2018. Flipkart and Amazon clocked \$2.3 billion in GMV in 2018, which in turn was 77% higher than in 2017, the report said.

We believe, given the positive commentary from management of various companies in the consumer durable supply chain space including Mall operators, large electronic Multi Brand Outlet operators and retailers like Croma and Vijay sales and also various white goods manufacturers like LGs and Godrejs' of the world, festive season has brought some positivity to the consumer durable markets. Moreover, given the heavy discounting, cash back offers & freebies and easy finance & EMI schemes offered during the recently concluded festive sales, we believe, companies in the consumer durable space are likely to report steady growth in topline for Q3FY20E as well. Moreover, management commentary indicated that in the consumer durable space, increased demand from kitchen appliances like Cookers, Gas Stoves & Cooktops, Mixer Grinders (major players – TTK Prestige, Hawkins, V-Guard) and other consumer durable products in less than Rs.10000 MRP category like fans, LED lights, water heater, water purifiers are likely to witness steady to strong growth. Apart from this, management commentary was also positive from IFB industries for its Front load washing machines and microwaves. Management for IFB industries highlighted that differentiated and new product offering was also one of the key driver for new purchases in white goods segment. Few RAC players have highlighted that erratic rainfalls in the month of October 2019 may impact some sales in Q3FY20E, but guided that inventory levels have come back to normal levels which may drive sales once the retailers start building inventory before the summer sales.

Consumer Durable Index has historically given superior returns vs S&P BSE Sensex in the past few years– given the long term growth drivers

India’s consumer market has seen a strong growth over the years. Driven by a young population with access to higher disposable incomes and easy finance options, the consumer durable market has been growing at a significant faster pace. Over the last decade, higher disposable income and a growing consumption culture (fueled largely by the middle-income bracket population) to spend more on essential categories like food, beverages, apparel, personal care, gadgets/electronics, transport and housing has brought about a sharp growth for the companies in these segment. This growth was also observed in an accelerated rate in semi urban and rural markets. (Source: Whirlpool India FY19 Annual Report). On the other hand, innovation and focus on continuously launching new offerings to drive differentiation and creating value has become a norm for the industry. Thus a robust innovation pipeline with a continued focus on developing new features and technology solutions to capture the consumer’s imagination and fuel the desire for enhanced consumer experiences continues to be a critical driver for increased purchases in the last few years. This, has led to sharp rise in the sales for the companies in the Consumer Durable segment, which is also reflected in the forms of superior return for S&P BSE Consumer Durable Index over S&P Sensex over the last few years (Jan 2017 to Oct 2019). **Also, given the strong volume growth expectation from consumer durable companies, stocks have also seen expansion in their PE multiples in the last few years (Check Annexure II).** Thus, sustenance of high PE multiples is likely to depend on the strong volume growth going ahead and any decline in the same may affect valuation multiples for companies in this sector.



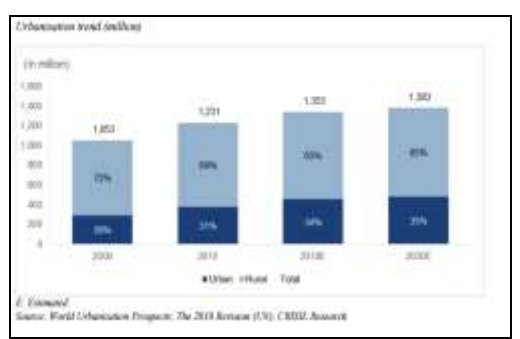
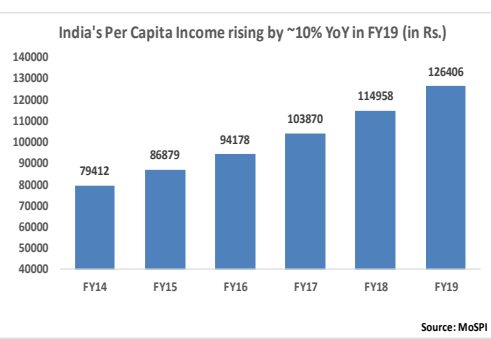
Category (In Mn Units)	FY19	FY25E	CAGR
AC	6.5	16.5	17%
Refrigerator	14.5	27.5	11%
Television	17.5	28.4	8%
Washine Machine	7	12.6	10%

Source: CEAMA and Frost & Sullivan Report, Business Standard

Going ahead, strong macro drivers continue to remain in place for the consumer durable industry which is likely to drive the growth for the companies in this segment. Recent report by CEAMA also suggest that Indian Appliances and Consumer electronic market is expected to grow at 11.6% CAGR in value terms over FY19-25 and over the same period, domestic manufacturing (or domestic value addition) is expected to grow at 16.4% CAGR. Thus the report expects the share of domestic manufacturing to rise from 34% in FY19 to ~54% in FY25. **Several factors like increasing per capital income, lower penetration levels for most of the white goods category, rising urbanization, availability for easy financing schemes, rising middle income group population, improving electricity availability scenario, lower replacement cycle driven by changing technology etc are likely to remain the key growth driver for consumer durable segment in the country.** Apart from these, large product offering in each of the segment given the availability of many players in most of the sub-segments of consumer durable industry at each price-points have also led to sharp rise in the demand from various segment of the population. Moreover, increasing share of organized players in the many brown goods categories like water heaters, gas stoves, mixer grinders, cooktops etc is also likely to be a key growth driver for the segment.

Consumer Durables	% Penetration
TV	70-75%
Refrigerator	30-33%
Air Cooler	15-17%
Washing Machine	10-11%
Air Conditioner	4%

Source: Media reports



Key drivers for replacement demand
White Goods category - Large product offering across categories & Price and new ad campaign to drive replacement demand

Over the years consumer durable manufacturers across various product segments like AC, Refrigerators, Washing Machine, Microwave etc have launched or introduced several new model ranges to cater to the different needs of the consumer. These launches are largely undertaken to make available consumer durable products across categories as well as at all price points to lure the customers. Moreover, several ad campaigns by manufacturers for making the consumer aware of the differentiated offering or various price points for each product, have also resulted in increased buying by the customers. On pricing front, many new entrants in the TV market have launched several high end TV sets at a much lower price as compared to current industry player which has led to some destruction in the TV market. Similarly, for Washing Machine industry, trend is being seen where consumers are moving from Semi-automatic washing machines to Fully Automatic washine machines and now from top loader machines to Front loading wachine machines. In RAC segment, industry is largely catered by top 20-25 players and over the years segment has evolved from Window to Split AC and now from Fixed speed ACS to Variable Speed Invertor ACs. Thus, we believe, large product offering at every price points and impressive ad campaigns to address the varied need of the customers are likely to drive the replacment demand for White Goods segment and this is turn is likely to drive the overall demand for the industry.

Air conditioners					Refrigerators (Frost Free)					Washing Machines Top load				
Company Name	Amazon	FlipKart	Croma	Vijay sales	Company Name	Amazon	FlipKart	Croma	Vijay sales	Company Name	Amazon	FlipKart	Croma	Vijay sales
Panasonic 1.5 ton 3 star AC	37500	37500	39490	39000	LG Frost Free 284L	27950	27500	28000	28000	Panasonic 6.5KG	18000	18000	18700	18500
Hitachi 1.5 ton 3 star AC	34300	36000	36000	36000	Whirlpool 265L	21490	21490	22500	20150	godrej 6.5kg	14000	13800	14450	14200
Daikin 1.5 ton 3 star AC	37500	37500	38000	NA	Samsung 253L	21190	21190	NA	NA	IFB 6.5kg	16437	16437	17000	17000
Carrier 1.5 ton 3 star	37100	38000	38500	NA	Haier 258L	24800	24800	NA	24990	Whirlpool 6.5kgs	14449	15000	15200	15000
Voltas 1.5 ton 3 star	35000	35000	36200	35500	Source: Prices as on 22 Nov 2019 on Online Platforms of various channels					LG 6.2 kg	16800	16200	17000	16200
Lloyd 1.5 ton 3 star	36000	35500	NA	NA						Samsung 6.5kg	15350	15500	16000	16200
Whirlpool 1.5 ton 3 star	30990	30990	NA	32490	Source: Prices as on 22 Nov 2019 on Online Platforms of various channels					haier 6.5kg	14000	14100	14000	14000
Haier 1.5 ton 3 star	31000	31500	32000	31500						Source: Prices as on 22 Nov 2019 on Online Platforms of various channels				

Product categories at MRP of Rs.10000 & less or Brown goods category – Increasing share of Organized players to drive demand

The 'Brown goods' manufacturing sector is largely characterised by many small-scale units producing mixers, grinders, juicers, food processors, irons, room coolers, water heaters, toasters, etc. Brown goods category or largely domestic kitchen appliances is witnessing changing consumer preference for branded product and over the years these goods have transformed themselves from a discretionary in nature to a more need based non-discretionary in nature. As a result, the segment or the companies in the branded brown goods market has expanded at a significant pace and is expected to retain the momentum into the future as well. The market has been transformed by the entry of over a dozen new brands. Moreover, competition has intensified. While focus on price competency remains a key priority, players have also started focusing on other product features such as safety and total cost of ownership of the device. Moreover, the Indian electrical appliances industry, which was focusing on the urban market, is now reaching out to semi-urban and rural markets as well. This is because of the shift in life style of the population, increasing electrification of villages and relatively higher purchasing power of consumers. As the market penetrates into the core middle-class segment in both urban and rural areas, it is expected to expand phenomenally, offering large volumes to the industry.

CATEGORY	KEY PLAYERS	Unorganized Share
STABILIZERS	Micro Tech, Livguard, Blue bird, Capri, Logicstat, Premier, Everest	44%
PVC WIRES	Polycab, Havells, Finolex, RR cables, Anchor	42%
COOK TOPS	Prestige, Bajaj electricals, TTK prestige, Preethi , Butterfly	31%
MOTOR PUMPS	Crompton Greaves, Kirloskar, CRI, Texmo	48%
WATER HEATERS	A.O smith, Racold, Bajaj, Venus, Crompton Greaves, Usha	35%
FANS	Crompton, Usha, Bajaj Electricals, Havells, Orient	23%
UPS	numeric, APC, Emerson	60%
DIGITAL UPS	Mircrotek, Luminous, SU-Kam, Exide	14%
SOLAR WATER HEATER	racold, Emmvee solar, sudarshan, supreme	30%
SWITCH GEAR	Havells, Legrand, L&T, ABB	30%
GAS STOVE	Butterfly (GLASS TOP), sun flame, Panasonic	50%
MIXER GRINDERS	Preethi, Bajaj electricals, Butterfly, Panasonic	40%

Source: V-Guard Quarterly Presentation

View: India continues to remain a largely underpenetrated market for most of the consumer durable category like AC (~4%), TV (~70-75%), refrigerator (30-33%), air coolers (15-17%) and washing machine (10-11%). Over the years, changing perception of the consumer durable products from a luxury item to a necessity among the working population has led to the most Indian households increasing their purchase of the same. On the other hand, increasing aspiration level of the young and working population, desire to shift to better category or branded products, new product offering by various manufacturers coupled with easy finance availability and improvement in continuous power supply scenario in the country (especially rural India) is also likely to drive the sales volume for most of the categories. In the near term, given the robust sales recorded by many manufacturers during the recently concluded festive season, may result in higher topline growth for most of the companies in listed space during Q3FY20. Also, normalization of inventory levels across product category in the last few months is also likely to drive demand in near to medium term specially for AC manufacturers before the onset of summers during Q4FY20. Given the huge size of opportunity in the room AC manufacturing sector, we remain long term positive on the sector. In our model portfolio we have Voltas Ltd, which is a play on the India's AC demand growth given its leadership position with ~24% market share (YTD FY20). Recently, Voltas has also ventured into other categories like Refrigerators, Washing Machine, Dishwashers and Microwave. We remain long term positive on the room AC and other consumer durable sector and currently have a Hold rating on Voltas Ltd in the space.

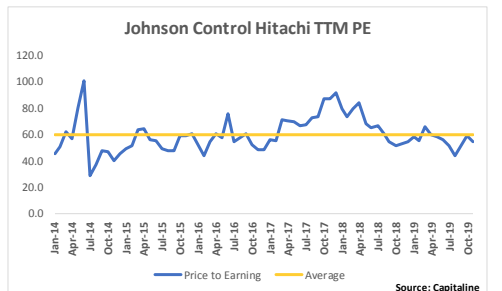
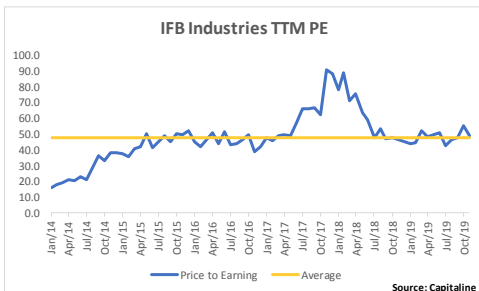
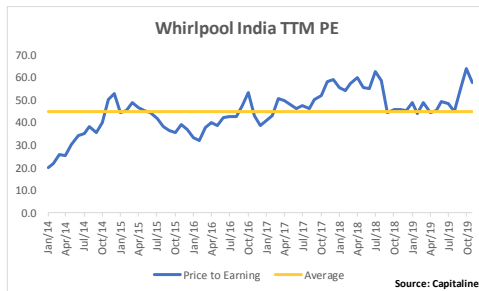
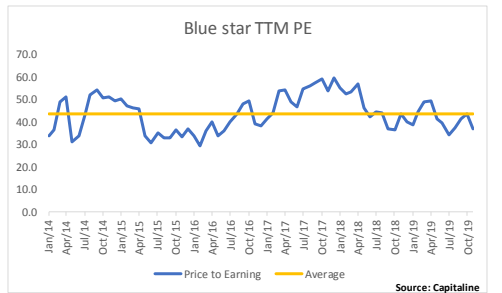
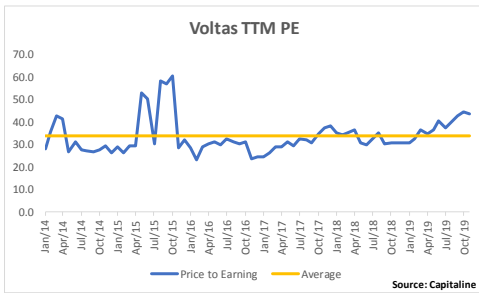
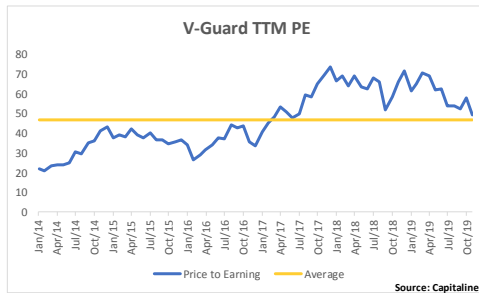
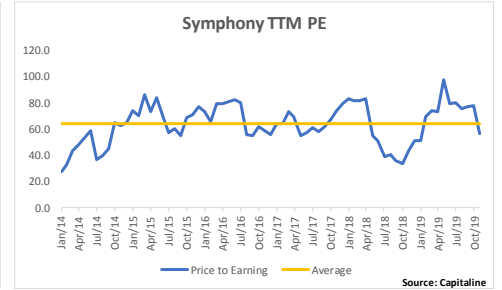
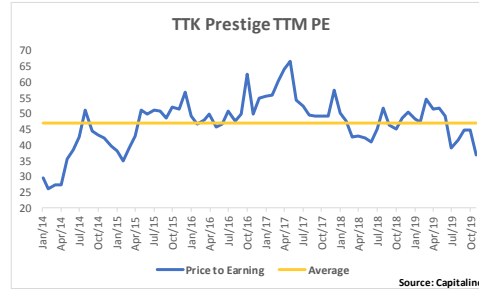
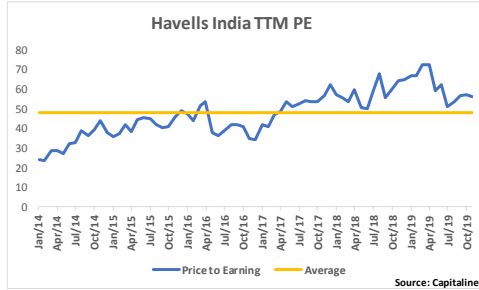
Annexure I: Product categories of various listed players

Company name	Product Category	Sub-Category	Market Capitalization (Rs Bn)
Bajaj Electrical Consumer Durables Segment	Cooking essentials, Breakfast and snacks manufacturing, Home Comfort, Food preparation, home essentials	Breakfast and snacks - juicer, toaster, sandwich makes, electric kettle Cooking essentials - electric cooker, gas stove, induction cooker, microwave oven, pressure cooker Food preparation - mixer grinder, hand blenders, food processors, juicers, choppers Home comfort - room heater, air cooler, irons, water heaters Home essentials - fans, lighting	35.07
Havells Consumer Durables Segment	Home essentials, appliances, personal grooming products, switches, cables	Juicer, grinder, iron, air purifier, climate controller, water heater, air cooler, flexible cables, water pump, solar panels, ceiling fans, table fans, wall fans, switches	421.85
TTK Prestige	Cookware, appliances, cleaning solutions, kitchen hoods	Cookware - fry pan, pressure cookers, induction cookers Appliances - microwave oven, juicer, blender, electric kettle, barbecues, pop-up toaster Kitchen goods - exhaust chimney and cleaning solutions	80.21
Symphony	Air Coolers	Commercial air coolers, Household air coolers, industrial air coolers	79.26
V-Guard Consumer Durables Segment	Voltage stabilizers, electric and solar power heaters, fans, cables, pumps, air coolers, kitchen appliances, inverter, wires	Inverters - solar power inverter, inverter batteries, UPS, Electric and solar water heaters - instant water heaters, gas water heaters, immersion water heating rods, Fans - ceiling fans, table fans, exhaust fans	100.89
Voltas Consumer Durables Segment	Home comfort appliances	Cooling Products: Air coolers, Air conditioners, Water dispensers, Commercial refrigeration products, smart AC's, Inverter AC's Voltas-Beko - Washine Machine, Refregerators, Microwave and Dishwashers	235.03
Blue Star Consumer Durables Segment	AC, commercial refrigerators, purifiers	Room air conditioners, water purifiers, air purifiers, air coolers, water coolers, central air conditioning, cold storage, commercial refrigeration	74.90
Whirlpool	Refrigeration, laundry, kitchen appliances, air conditioners, purifiers	Washing machines - front load, top load, automatic and semi automatic washing machines Refrigeration - three doors, double doors, single doors, bottom mount, top mount kitchen - micro wave ovens, pop up toaster, blender, mixer air conditioners - split ac, window ac purification - air purifiers, water purifiers	278.03
IFB Ind	Laundry, kitchen, living essentials,	Washing machines - front load, top load, automatic and semi automatic washing machines Kitchen Appliances - Micro wave ovens, chimney, dishwasher. Air conditioners & stabilizers	27.17
Johnson Control Hitachi	AC, LED TV, projectors	Household AC's, LED TV, Refrigerators,	53.17
Lloyd Consumer (Havells from Q1FY18)	Refrigeration, Laundry appliances & Air conditioners	Household refrigeration, Washing machines, AC, LED TV, Commercial chest freezers,	NA

Source: Company, Market Cap as on 27 Nov, 2019

Annexure II: Valuations are at elevated levels; earnings growth remains key driver

As highlighted before, valuation (TTM PE compiled from Capitaline) of many large Consumer Durable companies are at elevated levels (mostly ~40-50x levels). Hence, further upside in these companies are likely to be driven only on the back of earnings growth and any moderation in growth may have a potential impact on the stock price movement for these companies.

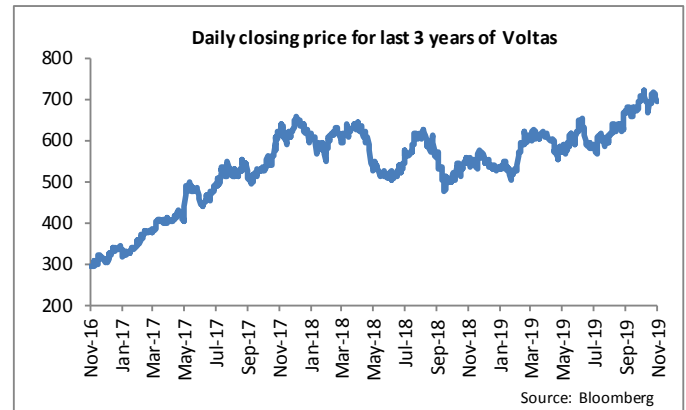


Voltas Ltd.
***CMP: Rs.702, *Mkt Cap: Rs.235 bn**
Background:

Voltas Ltd. (Voltas) is India's one of largest air conditioning company. Voltas Ltd. offers engineering solutions for a wide spectrum of industries in areas such as heating, ventilation and air conditioning, refrigeration, electro-mechanical projects, textile machinery, mining and construction equipment, water management & treatment, cold chain solutions, building management systems, and indoor air quality.

Key Details

52 week H/L(Rs)	725/502
Market Cap (Rs. Bn)	235
Book Value (Rs) YTD	132.5
FV (Rs)	1.0
PE (X) (TTM)	43.2
Dividend Yield (%)	0.6


Earnings Summary – Standalone

Y/E	Sales	Growth	EBITDA	Margin	Net Profit	EPS	Growth	P/E	Div. Yield
31-Mar	Rs Mn	(%)	Rs Mn	(%)	Rs Mn	Rs	%	X	%
18A	64,044	6.2	6,626	10.3	5,720	17.3	10.7	40.6	0.5
19A	71,241	11.2	6,117	8.6	5,161	15.6	(9.8)	45.0	0.6
20E	80,980	13.7	7,855	9.7	6,736	20.4	30.5	34.5	0.6
21E	92,451	14.2	9,892	10.7	8,214	24.8	21.9	28.3	0.6

View:

Voltas Ltd is one of India's leading engineering solution providers. The sales for the UCP segment continued to see steady growth even in Q2FY20 due to low channel inventory, extended summer season & delayed monsoon, easy financing schemes, online promotional offers and competitive & unique product offering by Voltas. While, the Room Air Conditioner (RAC) market grew by ~33% YoY during H1FY20, Voltas grew by ~44% YoY during the same period and thereby increasing its market share to 24.4%. We believe existing dealer and channel network in the AC segment along with newly introduced exclusive Voltas showroom exhibiting RAC and Voltas Beko products would help the company for growth into other durable goods as well. On the EMP, management has guided that EBIT margin for the EMP segment is likely to remain steady at over 7-7.5% as slow moving orders move out of the backlog and newer projects with better profitability come into execution. Currently, we have a Hold rating on the stock with a target price of Rs.745 at 30x FY21E EPS of Rs.24.8. Any change in earnings/price target would depend upon the order inflow/execution in domestic and international markets, margin improvement; scale up of the new JV, general business momentum and rollover to the next financial year.

* Note: CMP and Market Cap as on November 27, 2019

Rating Interpretation	
Rating	Expected to
Buy	Appreciate more than 10% over 12-18 month period
Hold	Appreciate below 10% over 12-18 months period
Under Review	Rating under Review
Exit	Exited out of model portfolio

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