Initiating Coverage

Steel Strips Wheels Ltd.

September 27, 2021

RETAILRESEARCH

Steel Strips Wheels Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 1720	Buy in Rs 1710-1740 band & add more on dips to Rs 1510-1530 band	Rs 1877	Rs 2056	2 quarters

HDFC Scrip Code	STESTREQNR
BSE Code	513262
NSE Code	SSWL
Bloomberg	SSW IN
CMP Sep 24, 2021	1719.5
Equity Capital (Rs cr)	15.6
Face Value (Rs)	10
Equity Share O/S (cr)	1.6
Market Cap (Rs cr)	2622.0
Book Value (Rs)	480.0
Avg. 52 Wk Volumes	73700
52 Week High (Rs)	1958.4
52 Week Low (Rs)	413.0

Share holding Pattern % (Jun, 2021)	
Promoters	62.8
Institutions	1.3
Non Institutions	36.0
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Atul Karwa

atul.karwa@hdfcsec.com

Our Take:

Steel Strips Wheels Ltd (SSWL) commands a leadership position in the steel wheels segment with an overall market share of ~50-55% and ~20% in the alloy wheels segment. The company has witnessed strong demand over the past few quarters and it is expanding its steel as well as alloy wheels capacity to meet the increasing demand. It is concentrating more on alloy wheels and export segment both of which are higher margin segment and expects these segments to contribute ~50% of revenue in 3-4 years from 35% in FY21. Globally the alloy wheel market is of ~35cr wheels p.a. and SSWL is eligible to participate in global RFQ. Furthermore, the company could also explore inorganic expansion for steel wheel rim capacity in the near term. It has already announced resolution plan for acquisition of AMW Autocomponent (AACL) under corporate insolvency resolution process that has been approved by the committee of creditors of AACL as on 21Sep-2021. As per the management, any inorganic growth opportunity would be largely funded by internal accruals. Healthy offtake of the enhanced capacities will remain key to the elevation in profitability and return on capital employed, as well as deleveraging.

India's passenger vehicle industry is showing strong signs of growth driven by changing demographic profile of buyers, higher per capita income and easy availability of finance. Share of alloy wheels is on the rise due to increasing premiumisation. Recovery in CV industry and strong growth in export orders should drive the company's growth. SSWL has strong growth visibility from the export market which has resulted in increased order inflows thereby reducing its dependence on domestic OEM demand. Exports contributed to around 26% of the revenue in Q1FY22 (FY21: 15%; FY20: 14%). Despite firm raw material prices, ramp-up of exports business has led to EBITDA margin of 14.4% in Q1FY22 v/s Q4FY21: 12.3%; Q3FY21: 12.5%. SSWL has invested heavily in recent years to stay ahead of the competitors especially in the alloy wheels segment. The long-standing relationships with OEM manufacturers would benefit the company to keep facing competition.

Valuation & Recommendation:

We expect SSWL's revenue/EBITDA/PAT to grow at 48/59/138% CAGR over FY21-FY23, led by the increased demand from the domestic automobile industry and higher contribution from alloy wheels and export segment. Upgrade in credit rating and repayment of debt would aid in increasing profitability. We expect RoE to improve from 6.8% in FY21 to 26.3% in FY23. The Board has approved split in the face value of the stock from Rs 10 to Rs 5 and the record date for this may be announced shortly. We believe investors can buy the stock in the band of Rs 1710-1740 and add on dips to Rs 1510-1530 band (8.5x FY23E EPS) for a base case fair value of Rs 1877 (10.5x FY23E EPS) and bull case fair value of Rs 2056 (11.5x FY23E EPS) over the next 2 quarters.

Financial Summary

Particulars (Rs cr)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Operating Income	678	120	463.8	700	-3.1	1563	1749	3041	3849
EBITDA	98	2	4077.8	86	13.6	171	204	395	512
APAT	51	-38	-234.1	45	14.6	23	49	189	279
Diluted EPS (Rs)	32.7	-24.4	-233.9	28.5	14.6	15.0	31.6	121.3	178.8
RoE (%)						3.4	6.8	22.5	26.3
P/E (x)						114.4	54.5	14.2	9.6
EV/EBITDA (x)						20.4	16.7	8.7	6.4

(Source: Company, HDFC sec)

Recent Developments

Q1FY22 Result Update

SSWL reported strong numbers for Q1FY22. Net sales jumped 464% yoy to Rs 678cr driven by a low base. On a sequential basis sales dipped by 3% on account of staggered lockdowns in the domestic market offset by increased exports and higher realisation. EBITDA margins expanded 210bps to 14.4% on lower growth in employee and material expenses. The company commissioned its steel wheel capacity expansion which increased from 186 lakh to 205 lakh wheels. PAT went up by 15% qoq to Rs 51cr which is higher than the PAT for the entire FY21.

The management has set a sales target of Rs 3400cr for FY22 driven by a sharp jump in exports and alloy wheel sales. It has projected EBITDA of Rs 425cr and secured debt reduction from Rs 548cr to Rs 498cr. It has reported net sales of Rs 614cr in Jul-Aug 2021 vs Rs 678cr in Q1FY22.

Key Triggers

Strong exports order booking

SSWL has witnessed strong growth in export order booking over the past 2-3 quarters. The company recently signed MoU of ~Rs 800cr with Western Hemisphere, which is among the largest wholesalers in USA. The MoU is spread over 3 years and covers supply of steel (65-70%) and aluminium wheels (30-35%). Supply of steel wheels would start from Sep-2021 while alloy wheels would be shipped from beginning of Q4FY22. Post the completion of 3 years the MoU can be renewed for another three years. This shows strong confidence of the customers in SSWL to develop long term strategic partnerships.

Recovery in vehicle sales to continue

After two years of slowdown, the Indian automobile industry registered strong growth across passenger and commercial vehicles and two-wheeler segments so far in FY22. With good monsoon rains and improved macro-economic conditions buoying consumer sentiments, the trend is expected to continue this fiscal. According to SIAM data PV sales increased by 107% Apr-Aug 2021 over the corresponding period last year while 2W/3W sales increased 21/64% respectively.

Given the improvement in monsoon, improving sentiment in rural markets and increased spends on infrastructure and mining projects automobile sales are expected to remain strong in the coming quarters. According to credit ratings firm ICRA, passenger vehicle (PV) industry is expected to post an impressive growth of 17% to 20% for FY22 after a 2%-4% de-growth in FY21. Domestic two-wheeler volumes in FY22 are expected to grow by 10-12% and for the commercial vehicle segment, growth is expected to be about 21-24%.

Growing demand for alloy wheels for PVs

Earlier, alloy wheels used to be part of premium vehicles but over the years they have become popular for the mid-size segment as well. SSWL had an insignificant presence in the alloy wheel segment few years ago and now with this market growing, the company sees a huge opportunity. In FY20, the annual requirement for alloy wheels in India was estimated at 2.6cr, of which, 1.2cr or over 46% was imported mostly from China due to lack of domestic supply. The management expects to generate operating margin of 16-18% percent from alloy wheels as compared to 13-14% that they generate from steel rims. In light of this, it is expanding its alloy wheel capacity from 15 lakh wheels to 25 lakh wheels in FY22 and 30 lakh wheels in FY23.

Alloy wheel	Steel wheel
Lighter than steel, leading to better fuel efficiency	Heavier than alloy affecting fuel economy
Better performance and acceleration	Comparatively lower performance
Can be customized in different designs and sizes	Less choices of styles
Excellent choice for larger diameter wheels (16” and up).	Isn’t suitable for wheels over 16” in diameter
Breaks/cracks relatively easily than steel wheels	Greater force is required to break/bend it
Vulnerable to cosmetic damages such as saltwater corrosion and acid cleaners.	Cosmetic damages are not a big issue for steel wheels
Comparatively expensive (~2.5-3x)	Cheaper than alloy wheel

Due to advantages of better appearance than steel wheels, enhanced aesthetic appeal, light weight, better fuel efficiency and adherence to stricter emission norms, the price of alloy wheel is 2.5-3x the steel wheel which will have a positive impact on the margins of the company. SSWL had a capacity utilisation of ~74% in FY21. We expect capacity utilisation to increase to 96% by FY23 on expanded capacity.

Increasing share of alloy wheel segment

SSWL forayed into the alloy wheel segment by setting up a plant in Mehsana in 2017 with an initial capacity of 15 lakh wheels/annum and total capital outlay of Rs 350cr. The capacity has been further expanded to 25 lakh wheels/annum. Looking at the strong demand in alloy wheels the management intends to further expand this capacity to 30 lakh wheels/annum in FY23. Alloy wheel sales grew by 249% in FY21 to 10.9 lakh units. This segment generates margin of 16-18% as compared to 13-14% for steel wheels. It supplies aluminium alloy wheels to leading OEMs like Hyundai, Kia, Renault, M&M, and Tata Motors. The overall capex cash outflow in FY22 is estimated at close to Rs 125cr vs Rs 90.6cr in FY21- to be funded through a mix of internal accruals and debt.

Mindshare in Alloy Wheel market

SSWL Nomination for Alloy Wheel Programs	SOB
Hyundai Creta	100%
Hyundai Alcazar	100%
Hyundai Venue	100%
Hyundai Verna	100%
Hyundai Aura	100%
Kia Seltos	18%
Kia Sonnet	50%
Renault Kiger	100%
Nissan Magnite	100%
Mahindra New Xuv 700	100%
Mahindra Xuv 300	100%
Tata Harrier	40%
Tata Hornbill	100%
Tata Tigor	85%

(Source: Company, HDFC sec)

Diversified set of customers

The State of Art facilities of SSWL caters to widest range of Domestic & Global Automobile customer's demands with highest quality standards benchmarks. SSWL caters to almost all the sub-segments of automobile industry including 2/3 wheelers, PV, LCV, HCV and OTR. Post the commercialisation of its alloy wheel plant, its exports have seen an uptrend with the company getting strong and repeat orders especially from the US Aftermarket and European Caravan markets.

Wide and Diversified Set of Customers

Passenger Vehicles

MARUTI SUZUKI, TATA, Mahindra, MG, HONDA, NISSAN, HYUNDAI, KIA, JAGUAR, PEUGEOT, LAND ROVER, Ford, ŠKODA, VW, BMW, RENAULT

Tractor

Mahindra, SONALIKA INTERNATIONAL, EICHER, ESCORTS, SWARAJ, JOHN DEERE, YANMAR, Gromax AGRI EQUIPMENT LIMITED, NEW HOLLAND AGRICULTURE, PREET, Kubota, CAPTAIN

Commercial Vehicles / OTR

TATA, ASHOK LEYLAND, DAIMLER, ESCORTS, SWARAJ MAZDA, MAN, VOLVO EICHER, Mahindra EARTHMASTER, LARSEN & TOUBRO, Putzmeister, CNH INDUSTRIAL, JCB

2/3 Wheeler

HONDA, Mahindra, PIAGGIO, SUZUKI, ATUL, JSA THREE WHEELERS, AMPERE By GREAVES

(Source: Company, HDFC Sec)

SSWL also has a strong relationship with its suppliers – Tata Steel and Sumitomo Metal Industries Ltd, which are also strategic investors in the company, with a stake of 6.96% and 5.45%, respectively, as of June 2021. SSWL has technology tie-ups with Ring Techs Co Ltd, Japan. For its alloy wheel plant, it has entered into a technical collaboration with Kalink Co Ltd., South Korea.

Strong Market Position

SSWL has a strong share in the steel wheel market. It has a share of about 50% in the passenger vehicle steel wheel segment, a share of about 44% in the tractor segment, a share of 53% in the commercial vehicle segment, 50% in the off-road vehicle segment and 30% in the 2/3 wheelers segment. Moreover, SSWL has established relationships with original equipment manufacturers (OEMs) operating in these segments. It has constantly focused on increasing its business with OEMs and has been able to penetrate several new passenger cars launches in the recent past.

Domestic Business allocation (Steel Wheels) – SOB (Share Of Business)

Passenger Vehicles – 50% market share		
Key Customer	SOB	Key Platforms
Maruti Suzuki	50%	Ciaz, Baleno, Scross, Brezza, Celerio
Hynduai	45%	Venue, Xcent, Grandi10, Verna
Mahindra	50%	KUVTUV,XUV
Honda	50%	Mobilio, WRV, Jazz, Amaze, City
MG Motors	100%	Hector
Kia	55%	Seltos, Carnival, Sonet

Tractor – 44% and OTR – 70% market share		
Key Customer	SOB	Key Platforms
Mahindra	57%	Jivo, Arjun, Yuvraj, Dhruv
Sonalika	45%	D1745, D16TRX, RX47
Eicher	35%	551, 548 , 485
JCB	60%	3DX, 4DX, Export Model
New Holland	40%	5500 , 7500

MHCV – 53% market share		
Key Customers	**SOB**	**Key platforms**
Ashok Leyland	55%	Ecomet, Ross, Viking, Cheetah
Tata Motors	42%	Ultra LPK 1512, LPK1518, 2518, 3718, 3118 , 4218

2/3 wheelers – 30% market share		
Key Customers	**SOB**	**Key platforms**
Piaggio	54%	Ape city , Ape Cargo
HMSI	35%	Activa, Dio, Activa125, Grazia, Aviator
Suzuki Scooters	45%	Access 125
Scooter India	100%	Vikram

(Source: Company, HDFCsec)

Historically, commercial vehicles (CV) have dominated the company's revenue base (FY21: 20%; FY20: 27%; FY19: 42%). However, with the steepest production decline at OEM level in the CV segment, and scale up of alloy wheel sales, PV became the largest contributor to revenue with a share of 49% in FY21 (FY20: 38%; FY19: 26%); tractors contributed 17% (19%;15%), followed by two and three-wheelers at 3% (6%; 5%). Exports for the company are also on an increasing trend contributing 15% to the FY21 revenue (FY20: 14%; FY19: 10%).

Anti-dumping duty dilutes threat of cheaper imports

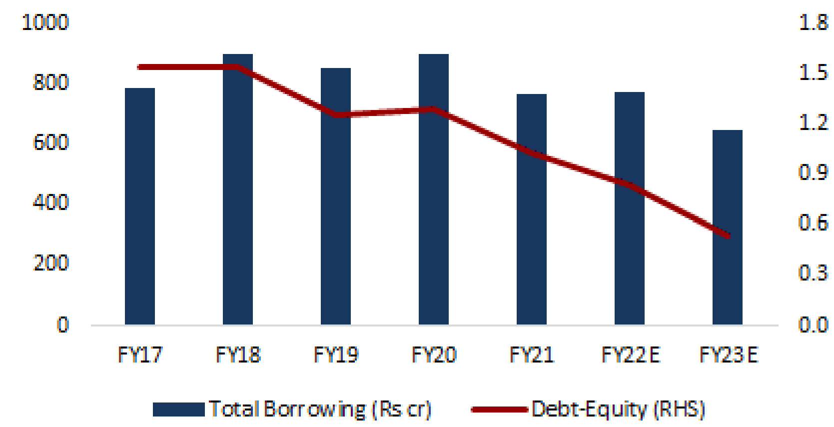
The Government of India in Apr-2014 imposed anti-dumping duties on alloy wheels imported from China, Thailand and Korea in the range of $1-$2.15 per kg. The duty was levied for a period of 5 years (unless revoked, amended or superseded earlier) from the date of imposition of the provisional anti-dumping duty, that is, the 11th April, 2014 and shall be paid in Indian currency. This duty was extended for a period of 5 years in Apr-2019. This has reduced the threat of cheaper imports from other countries flooding the market to the detriment of Indian manufacturers.

Deleveraging to strengthen balance sheet

The company has been reducing its debt levels from FY18 onwards. Its secured debt has come down from Rs 610cr in FY18 to Rs 548cr in FY21 while overall debt has declined from Rs 900cr to Rs 769cr. Debt-Equity ratios has improved from 1.5x to 1x. We expect the company to continue to deleverage on the back of strong profit generation, although partially offset by expansion plans. Debt-Equity is expected to improve to 0.6x by FY23E and interest coverage to 6.6x from 1.8x in FY21.

India Ratings has on September 20, 2021 upgraded Steel Strips Wheels Limited's (SSWL's) Long-Term Issuer rating to 'IND A-' from 'IND BBB+'. The Outlook is Positive.

Reducing debt and improving debt-equity ratio



(Source: Company, HDFC sec)

Favourable location of production facilities

SSWL's plant in Chennai is close to the Chennai port and the manufacturing unit of its key customer Renault Nissan Automotive India Private Limited. This helps in keeping freight costs cost low and catering to export markets. Its Jamshedpur plant is primarily catering to the requirements of Tata Motors Limited, and gives it a cost advantage over competitors, along with reduced logistics and raw material costs due to its proximity to the plants of Tata Motors and Tata Steel Limited. Its alloy wheel plant in Mehsana is in proximity to the Kandla port and the plants of OEMs such as Tata Motors and Maruti Suzuki.

Risk & Concern

Competition from new and established players

Increasing penetration and higher profitability has attracted new players in the alloy wheel market in India. Existing players are also expanding their capacities. Wheels India commissioned a new cast aluminium plant with a capacity of 7.5 lakh wheels/annum in Oct-2020 and Minda Kosei announced an expansion of 60000 wheels/month in Mar-2021 Higher competition could limit the growth for alloy wheels for the company.

Vulnerable to cyclicality in demand from automobile OEMs

SSWL manufactures steel/alloy wheels for the automobile sector and is exposed to cyclicality in demand for automobiles.

Slowdown in CV sales

Though CV sales accounted for 8% in volume terms in FY21, their share was 22% in value terms. Delay in growth revival of CV industry would result in lower sales value growth.

Covid related disruptions

The pandemic is a hanging sword and looking at developed countries where third-fourth waves are happening, there are chances of a third-wave in India as well which could slowdown economic activity.

Forex volatility risk

SSWL has been getting significant orders for US Truck & Trailer Aftermarket and EU Caravan market driven by the economic recovery in these regions. The rupee fluctuations vis-à-vis the US$ and Euro could impact its profitability.

Promoter pledged shares

Promoters have pledged 29.07% of their holding for loans borrowed for company/personal purposes. In case of any failure of the promoters to pay the MTM in case of a fall in the stock price, there could be a negative impact on the stock price.

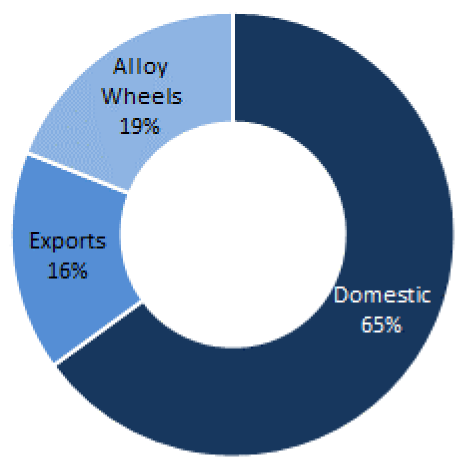
Export sales are to a large extent dependent on Truck sales trend in America and Caravan sales trend in the Europe.

SSWL does not supply alloy wheels to Maruti and Honda so far, but will start supplying to them soon.

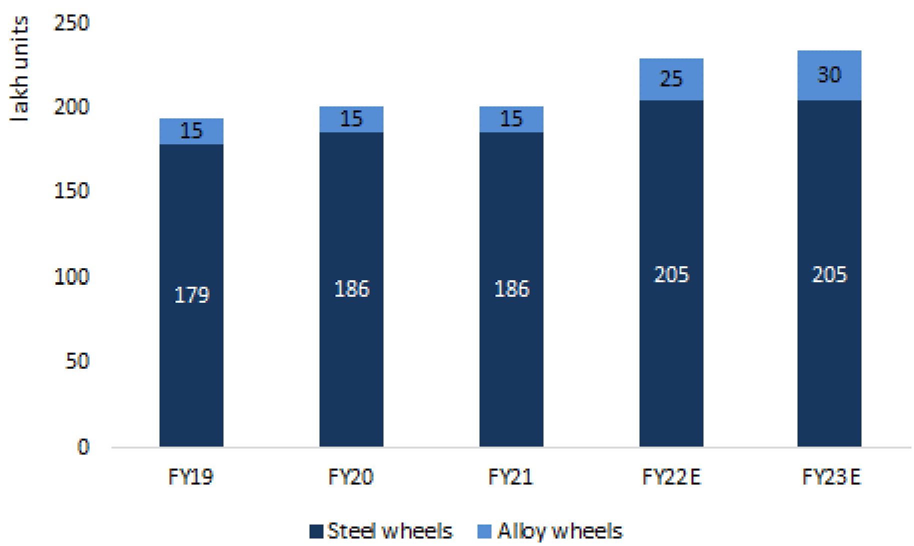
Company Background:

Established in 1985, Steel Strips Wheels Ltd. (SSWL) manufactures steel and alloy wheel rims catering to different segments of the automobile industry since 1991 and is among the leading suppliers to Indian & Global Automobile Manufacturers. Its product range comprises steel wheels for 2/3 Wheelers, Passenger cars, Multi utility vehicles, Tractors, Trucks & OTR Vehicles and alloy wheels for passenger cars. It has manufacturing units in Dappar (Punjab), Oragadam, (Chennai), Jamshedpur and Saraikela (Jharkhand), and Mehsana, Gujarat with a combined capacity of 201 lakh wheels. SSWL is looking to expand both steel and alloy wheel capacities to 205 lakh and 30 lakh wheels respectively by FY23. In FY21, 82% of its sales were of steel wheel rims and 18% from alloy wheel rims.

Sales breakup (FY21)



Capacity breakup



(Source: Company, HDFC sec)

As of FY21, SSWL had four manufacturing units with a combined capacity of 201 lakh steel/alloy wheels per annum.

Location	Capacity
Dappar, Punjab	108 lakh steel wheels per annum
Chennai, Tamil Nadu	75 lakh steel wheels per annum
Jamshedpur, Jharkhand	21.6 lakh steel wheels per annum
Mehsana, Gujarat	25 lakh alloy wheels per annum

(Source: Company, HDFC Sec)

SSWL has got into various technical and strategic collaborations for the know-how and knowledge sharing for its existing as well as upcoming product lines.

Company	Alliance	Holding in SSWL
Tata Steel, India	Strategic	6.96%
Sumitomo Metal Industries, Japan	Strategic	5.45%
Kalink, South Korea	Technical	1.34%

(Source: Company, HDFC Sec)

SSWL Export Customer Locations

(Source: Company, HDFC Sec)

Financials

Income Statement

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	**2041**	**1563**	**1749**	**3041**	**3849**
Growth (%)	***34.4***	***-23.4***	***11.9***	***73.8***	***26.6***
Operating Expenses	1795	1392	1546	2646	3337
EBITDA	**246**	**171**	**204**	**395**	**512**
Growth (%)	***22.8***	***-30.4***	***19.0***	***94.0***	***29.5***
EBITDA Margin (%)	***12.1***	***11.0***	***11.6***	***13.0***	***13.3***
Depreciation	62	72	72	77	82
Other Income	17	22	16	17	19
EBIT	**201**	**121**	**148**	**335**	**449**
Interest expenses	93	89	84	83	77
PBT	**109**	**33**	**64**	**253**	**372**
Tax	27	9	15	63	93
Adj. PAT	**82**	**23**	**49**	**189**	**279**
Growth (%)	***9.7***	***-71.5***	***110.2***	***284.5***	***47.4***
EPS	52.8	15.0	31.6	121.3	178.8

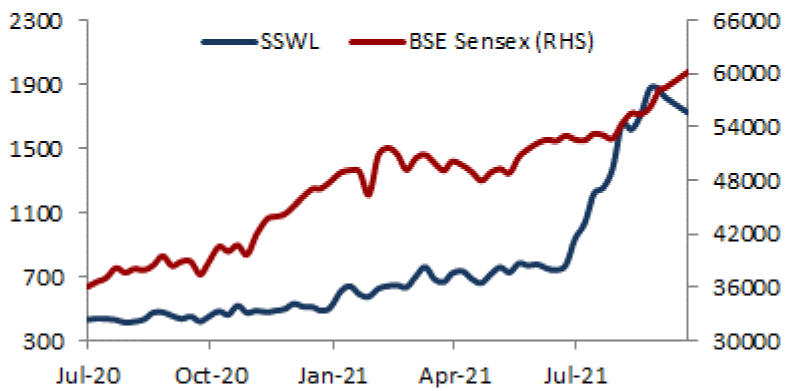
Balance Sheet

As at March (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	16	16	16	16	16
Reserves	666	682	734	915	1179
Shareholders' Funds	**682**	**698**	**749**	**931**	**1194**
Minority Interest	0	0	0	0	0
Borrowings	851	898	769	774	649
Net Deferred Taxes	126	154	164	164	164
Total Source of Funds	**1658**	**1750**	**1682**	**1868**	**2007**
APPLICATION OF FUNDS					
Net Block & Goodwill	1329	1307	1259	1378	1369
CWIP	53	85	109	44	35
Investments	0	0	0	0	0
Other Non-Curr. Assets	19	21	57	97	115
Total Non-Current Assets	**1401**	**1413**	**1426**	**1519**	**1520**
Inventories	338	329	496	792	896
Trade Receivables	194	210	257	458	538
Cash & Equivalents	121	92	53	34	64
Other Current Assets	100	135	144	183	232
Total Current Assets	**753**	**766**	**951**	**1467**	**1730**
Trade Payables	257	214	412	667	685
Other Current Liab & Provisions	238	216	283	452	558
Total Current Liabilities	**495**	**429**	**695**	**1118**	**1243**
Net Current Assets	258	337	256	349	487
Total Application of Funds	**1658**	**1750**	**1682**	**1868**	**2007**

Cash Flow Statement

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
PBT	109	32	64	253	372
Non-operating & EO items	5	3	-12	10	32
Interest Expenses	82	77	84	83	77
Depreciation	62	72	72	77	82
Working Capital Change	-47	-72	-25	-163	-159
Tax Paid	-27	-9	-15	-63	-93
OPERATING CASH FLOW (a)	**184**	**104**	**169**	**196**	**312**
Capex	-91	-81	-49	-130	-65
Free Cash Flow	92	23	120	66	247
Investments	0	0	0	0	0
Non-operating income	11	12	12	0	0
INVESTING CASH FLOW (b)	**-80**	**-69**	**-37**	**-130**	**-65**
Debt Issuance / (Repaid)	-52	29	-60	5	-125
Interest Expenses	-97	-92	-84	-83	-77
FCFE	-46	-28	-12	-11	45
Share Capital Issuance	22	0	0	0	0
Dividend	-8	-8	0	-8	-16
FINANCING CASH FLOW (c)	**-135**	**-71**	**-144**	**-85**	**-217**
NET CASH FLOW (a+b+c)	**-32**	**-36**	**-12**	**-19**	**29**

Price chart



Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Profitability Ratios (%)					
EBITDA Margin	12.1	11.0	11.6	13.0	13.3
EBIT Margin	9.9	7.8	8.4	11.0	11.7
APAT Margin	4.0	1.5	2.8	6.2	7.3
RoE	13.0	3.4	6.8	22.5	26.3
RoCE	13.4	7.8	9.5	20.8	25.3
Solvency Ratio (x)					
Net Debt/EBITDA	3.0	4.7	3.5	1.9	1.1
Net D/E	1.1	1.2	1.0	0.8	0.5
PER SHARE DATA (Rs)					
EPS	52.8	15.0	31.6	121.3	178.8
CEPS	92.6	61.2	77.9	170.7	231.5
BV	437.3	447.7	480.0	596.3	765.2
Dividend	4.0	0.0	2.0	5.0	10.0
Turnover Ratios (days)					
Inventory days	45	47	49	43	47
Debtor days	54	78	86	77	80
Creditors days	52	55	65	65	64
VALUATION (x)					
P/E	32.5	114.4	54.5	14.2	9.6
P/BV	3.9	3.8	3.6	2.9	2.2
EV/EBITDA	13.9	20.4	16.7	8.7	6.4
EV/Revenues	1.7	2.2	1.9	1.1	0.8
Dividend Yield (%)	0.2	0.0	0.1	0.3	0.6
Dividend Payout (%)	7.6	0.0	6.3	4.1	5.6

(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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 Phone: (022) 3045 3600

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