

Stock Note

Zydus Wellness Ltd.

August 24, 2023





| Industry | LTP | Recommendation | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|----------|----------|--|----------------------|----------------------|--------------|
| FMCG | Rs. 1590 | Buy in Rs. 1580-1600 band and add more on dips in Rs. 1410-1430 band | Rs. 1735 | Rs. 1905 | 3-4 quarters |

| | |
|-----------------------|------------|
| HDFC Scrip Code | ZYDWELEQNR |
| BSE Code | 531335 |
| NSE Code | ZYDUSWELL |
| Bloomberg | ZYWL IN |
| CMP (Aug 23, 2023) | 1590 |
| Equity Capital (RsCr) | 64 |
| Face Value (Rs) | 10 |
| Equity Share O/S (Cr) | 6.4 |
| Market Cap (RsCr) | 10120 |
| Book Value (Rs) | 805 |
| Avg. 52 Wk Volumes | 52812 |
| 52 Week High | 1791 |
| 52 Week Low | 1363 |

| Share holding Pattern % (June, 2023) | |
|--------------------------------------|-------|
| Promoters | 67.10 |
| Institutions | 25.28 |
| Non Institutions | 7.62 |
| Total | 100.0 |



* Refer at the end for explanation on Risk Ratings

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Our Take:

Zydus Wellness Limited's (ZWL) product portfolio includes brands such as Sugar Free, Everyuth, and Nutralite, which are market leaders in their respective categories of sugar substitute, skin scrubs/peel-offs and fat-free spreads, respectively. Further the acquired brands - Nycil and Glucon-D also maintained their leadership positions in their respective categories of prickly heat powder and glucose powder. ZWL has capitalised on research and development (R&D) capability and launched various new products to meet evolving consumer needs for healthier alternatives. Low penetration across categories along with accelerating distribution reach bode well for ZWL's product range. Focus on innovation has enabled the company to maintain steady market share of its brands. ZWL has enough capabilities to launch different variants, formats and extensions within the existing niche categories itself. ZWL is continuously driving the growth of its core brands to increase the market share of its brands through innovation, leveraging distribution channels, and expanding the brand portfolio, which will also enable to grow the customer base with increased penetration and expand the category size of the brands in which the company is a market leader. The company banks on three pillars – accelerating growth of core brands, building international presence, and significantly growing scale – to drive growth in the medium term.

Valuation & Recommendation:

ZWL is a unique play on emerging health & wellness categories but with limited competition from large FMCG firms. Categories require strong R&D capabilities and launching consumer centric products; maintaining market leadership position over >10 years is testament to ZWL's in-house R&D capabilities and consumer insights. Growth longevity could come from improving penetration and distribution. Expansion into international business (currently 3% of revenue with guidance to take this to 8% over coming years) is additional trigger. We model revenue / EBITDA / PAT CAGR of 11% /18% /19% over FY23-25E. Management expects operating margins to remain under pressure in the near term due to increase in manufacturing cost and recover it gradually to ~18% in FY25. With an improving profit trajectory, cost control and minimal increase in capital employed, we expect return ratios to improve from 6.2% in FY23 to 7.8% in FY25. The breadth of its products, their market share and relatively low valuations makes ZWL an attractive candidate for partnerships/corporate action.

We think the base case fair value of the stock is Rs 1735 (25x FY25E EPS) and the bull case fair value is Rs 1905 (27.5x FY25E EPS). Investors can buy the stock in Rs 1580-1600 band (23x FY25E EPS) and add more on dips in Rs 1410-1430 band (20.5x FY25E EPS).






Financial Summary

| Particulars (in Rs Cr) | Q1FY24 | Q1FY23 | YoY-% | Q4FY23 | QoQ-% | FY22 | FY23 | FY24E | FY25E |
|------------------------|--------|--------|-------|--------|-------|-------|-------|-------|-------|
| Operating Income | 702.1 | 696.4 | 1% | 713.0 | -2% | 2,009 | 2,255 | 2,497 | 2,797 |
| EBITDA | 116.5 | 148.1 | -21% | 144.6 | -19% | 345 | 337 | 402 | 470 |
| APAT | 110.4 | 137.0 | -19% | 145.3 | -24% | 309 | 310 | 372 | 441 |
| Diluted EPS (Rs) | 17.4 | 21.5 | -19% | 22.8 | -24% | 48.5 | 48.8 | 58.5 | 69.3 |
| RoE-% | | | | | | 6.6 | 6.2 | 7.0 | 7.8 |
| P/E (x) | | | | | | 33 | 33 | 27 | 23 |
| EV/EBITDA | | | | | | 30 | 31 | 25 | 21 |




(Source: Company, HDFC sec)

Key Triggers

Power brands – On the path to be Bigger and Better

| Brand | Market Positioning | Market Share (as of June 2023) | Remarks |
|--|-------------------------|--------------------------------|---|
|  | 1 | 59.9 % (-57 bps YoY) | <ul style="list-style-type: none"> Glucose-based beverage available in powder form Positioned as an effective energy booster Category-leading brand with more than 99% product recall Variants comprise Tangy Orange, Regular and Nimbupani |
|  | 5 | 4.5% (-31 bps YoY) | <ul style="list-style-type: none"> Milk-based health food drink 1 lakh stores added since acquisition Heritage brand of 80+ years with 90% brand recall |
|  | Prickly heat powder - 1 | 35.5% (+117 bps YoY) | <ul style="list-style-type: none"> Heritage product of 50+ years Leader in the Prickly Heat and Cooling Powder Category Strengthening leadership with Volume market share from 29.6% in 2018 to 38.2%* |



| | | | |
|--|---|--|--|
|  | 1 | 96.2% (+67 bps YoY) | <ul style="list-style-type: none"> • India's first low calorie sugar substitute with more than 95% market share • Positioned as 'India's largest selling Low-calorie Sweetener • Potential to be amongst top 3 global brands |
|  | Facial Cleansing – 5 Scrub – 1 Peel-off – 1 | Facial Cleansing – 6.2% Scrub – 42.4% Peel-off – 78.7% | <ul style="list-style-type: none"> • Advanced skincare portfolio includes soap-free face wash, face masks, scrubs, leave on products covering benefits like acne removal, exfoliation, sun protection • Growing faster than overall facial cleansing category • Scrub Volume market share from 34.8% in 2018 to 41.9%* • New launches– Body lotions and Aloe Gel |
|  | Fat spread - 1 | NA | <ul style="list-style-type: none"> • Leader in premium Cholesterol Fat-free spread • Expanding into contemporary range of spreads like Mayonnaise and Chocolate Spread • Forayed into Dairy segment with launch of Nutralite Doodhshakti range of Ghee and Butter |

(Source: Company, HDFC sec)

Key Highlights - FY23

Glucon-D: Strong comeback with good summer season

The company continued marketing efforts to drive the brand's growth and attract new consumers. As a result, the brand witnessed robust growth during FY23 and re-gained sales back to pre-Covid levels.

Continued focus on innovations and launched extensions like sachets, kachha mango under Immunovolts, and mango under flavoured glucose powder.

The Glucose powder category has grown by 10.7%. Glucon-D the brand continues to maintain its number one position with a market share of 60.1% as per MAT March 2023.

Complan: Supporting brand with activations and focused communication

The Health Foods Drink (HFD) category has witnessed a slowdown during FY23, and the brand's performance reflects the same. As the category has seen a shift in trends from refill packs and jars to sachets and pouches, the brand has been able to intervene timely and enjoy a more expansive market play with category parity packs.



The brand got support through 360-degree campaigns throughout the year across all mediums of TV, print, digital and influencer marketing campaigns.

HFD category has de-grown by 1.1% at MAT level. Complian market share stood at 4.5% in the category as per MAT March 2023 report of Nielsen.

Nycil: Witnessing strong traction

With a good summer season, the Nycil brand has witnessed a strong comeback in FY23.

The Prickly Heat Powder category has grown by 13.4% at MAT level. Nycil has maintained its number one position with a market share of 35.4% in the Prickly Heat Powder category.

Sweeteners: Driven by the natural variant of Sugar Free Green

The overall sweeteners portfolio registered a flattish growth during FY23. However, the portfolio posted a high single-digit growth on a three-year CAGR basis.

ZWL continued to build Sugar Free Green franchise with aggressive media campaigns with celebrity brand ambassador Ms. Katrina Kaif throughout the year.

Everyuth – Growing faster than the category

Everyuth brand continues to outpace category growth

Continued to support our core portfolio of face wash, scrubs, peel-off and body lotions through TV and digital campaigns throughout the year.

The Face Scrub category has registered a growth of 9.1% at MAT level. Everyuth Scrub continues to maintain its leadership position with a market share of 41.9% in the Facial Scrub category.

The Peel Off category has registered a growth of 4.5% at MAT level. Everyuth Peel Off has maintained its number one position with a market share of 78.4% in Peel Off.

Everyuth brand is at the number 5 position with a market share of 6.2% at overall facial cleansing segment level as per MAT March 2023.



Nutralite: Robust growth in the Dairy portfolio

Nutralite Doodhshakti dairy portfolio delivering solid double-digit growth.

Focused celebrity engagements with Shilpa Shetty and Chef Sanjeev Kapoor to drive growth for Doodhshakti butter portfolio.

Synergies from absorption of Heinz acquisition

During FY19, ZWL had acquired for Rs.4595 cr, the Indian business of US based Kraft Heinz which was nearly double the size of their then reported turnover but had lower EBITDA margins, close to 400 bps lower than their EBITDA margins of 23.6%. The products were popular, had their niche and carried the legacy of decades, and thus came along with a huge supply network. Funds for the acquisition were raised by preferential allotment/QIP in Jan 2019 and Sept 2020. Rs.3575 cr were raised at a premium of between Rs.1375 to Rs.1680 per share. Promoters stake that had fallen from 72.54% in Dec 2018 to 64.82% in Sept 2020 due to the fund raise has inched up since then to 67.1% due to creeping acquisition.

ZWL benefited by Rs 80 cr from the synergies of the Heinz acquisition vs. Rs. 40 cr initially anticipated. Synergies have been driven by (a) increasing throughput in trade by adding complementary general trade to the existing pharmacy distribution, (b) rationalisation of various positions in the combined entity driving reduction in employees (~15% reduction), (c) implementation of SAP and analytics software to integrate the Heinz acquisition, driving efficiency and demand planning and (d) optimised supply chain by reducing warehouses, consolidating CFAs and reducing distributors and rationalising margins by ~1.5% for the combined entity.

Continued higher ad spends to drive category penetration

ZWL operates in categories which have lower penetration level, and thus warrant a need for expanding market size, improving distribution and creating more awareness amongst consumers (need for the product, its usage style, efficacy etc.). ZWL's ad spends has been ~18% of sales from FY16, and post consolidation of Heinz portfolio they have settled at ~13.5%. While there is a drop of ~450bps, it is a function of seasonality in Heinz portfolio (hence requirement to spend only during 4-5 months a year). ZWL has guided to maintain ad spends at 13.5-14% till FY25. As ZWL continues to launch a range of products and extensions across brands, holding on to higher ad spends will help in brand creation.

Distribution expansion is key growth driver

ZWL is investing in building distribution footprint in General Trade ahead of category and enhance capability and capacity in the modern trade under go-to-market programme, Project Vistaar. The company would be increasing its direct reach from current 0.6 mn outlets as of March 2023 to 0.7 mn outlets in FY24. It is also planning to increase its overall availability from current 2.5 mn outlets to 3.0 mn outlets. E-commerce & Modern trade channel sales contribution was 19.6% in FY23 compared to 17.5% in FY22. In Q1FY24 the contribution from the same stood at 21.1%. These channels can contribute 25% to the sales in next few years.



International business can bring in incremental growth

ZWL brought in management expertise in FY17 to explore the international market potential majorly in Middle East, Africa, South East Asia & SAARC regions. Currently, ZWL exports its products to 25 countries with top 5 markets constituting ~80% of the business. Sugar Free and Complan account for 90% of company's international revenues. The company has planned to enter new markets with relevant offerings as part of expanding its geographical footprint. In FY23, international business remained flattish as supply chain issues in New Zealand and demonetization in Nigeria temporarily impacted the business. However, management expects it to grow in double digits and to contribute 8-10% of overall revenue within the next five years. Going forward, the volume growth led by extending geographical presence will play a key role in driving the top-line growth. In Q1FY24, ZWL operationalised a subsidiary in Bangladesh to expand its presence in the Indian subcontinent.

The company's international EBITDA margin is lower than the company average owing to listing fees and additional costs associated with selling & distribution in global markets. Though it could be 4-5% lower, it is expected to converge to the company's average EBITDA margin with higher scale.

Financial Summary

FY21 and FY22 were soft for ZWL since 35-40% of its portfolio is summer-centric, whose sales were subdued due to Covid. ZWL has used this disruptive period to launch more products and extensions. In FY23, ZWL reported 12.8% YoY growth in sales. We expect ZWL's revenue to clock 11% CAGR over FY23-FY25 on the back of strong volume growth across categories.

Post the acquisition of HIPL, ZWL's gross margin contracted by 1,320 bps over FY18-FY20 due to relatively low margins in the acquired brands, but EBITDA margin contracted just 585bps on the back of lower ad spends in the Heinz portfolio and initial synergy benefits. Over, FY20-23, gross margin have declined by 675 bps with steep inflation in input costs and unfavourable product mix. The fall in EBITDA margin was lower owing to better operating leverage. We expect EBITDA margin to improve from 15% in FY23 to 16.8% in FY25.

Income tax rates for the company would be nil till FY25 on account of excise benefits for two of its plants in Sikkim and depreciation of intangibles on account of acquired brands.

Addition of acquisition goodwill and subsequent dilution of equity have been major factors depressing the return ratios. ZWL's return ratios declined sharply, from 20-23% pre-acquisition to 6.2% in FY23. However, excluding goodwill, RoE was at ~19% for FY23. Going ahead, we expect RoE to improve from 6.2% in FY23 to 7.8% in FY25.



Key Concerns

Raw material price increase: In the recent times, the company faced some headwinds with regard to raw material prices like Skimmed Milk Powder (SMP) packaging material prices and palm oil but the company managed to take some price-hikes against the same. Any sustained increase in raw material prices and failure to take a price hike would result in lower than expected profitability.

Intense Competition: ZWL faces intense competition in most of its product categories from many reputed Multi-National Companies (MNC) and domestic companies who have presence in multiple product categories. Although the majority of its products have retained their market share, the “Complan” brand has been gradually losing its market share (from 12% in FY15 to 6% in FY19 and 4.5% in FY23) during last few years. Due to intense competition, the marketing expense of the company is expected to remain high.

Seasonality: Glucon-D and Nycil (~35% of revenues) are largely dependent on onset of a good summer season in India. The delay or shift in seasons may impact business.

Company Overview

The company was incorporated on November 1, 1994 as a public limited company, with the name of 'Carnation Health Foods Limited' (CHFL). With effect from June 8, 2006, Zydus Lifesciences Ltd. (earlier known as Cadila Healthcare) acquired 61.56% shareholding in CHFL to make it its subsidiary. Subsequently, Cadila Healthcare transferred its consumer products division and renamed the acquired company as ZWL. ZWL operates as an integrated consumer company with business encompassing the development, production, marketing, and distribution of health and wellness products. The product portfolio includes flagship brands such as Sugar Free, Everyuth, and Nutralite and acquired brands of Glucon D, Complan, Nycil and Sampriti Ghee. The Zydus Cadila group has acquired Heinz India Private Limited through ZWL with effect from January 30, 2019. As on March 31, 2023, Zydus Lifesciences Ltd. held 57.6% stake while Zydus Family Trust held 9.5% stake in ZWL, thereby, totaling the promoters’ stake at 67.10%. Recently, Zydus Family Trust acquired ~2.7 lakh shares from open market), as per disclosure given on exchanges.

ZWL’s product portfolio



(Source: Company, HDFC sec)



Financials

Income Statement

| Particulars (in Rs Cr) | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|------------------------------|--------------|--------------|--------------|-------------|-------------|-------------|
| Net Revenues | 1767 | 1867 | 2009 | 2255 | 2497 | 2797 |
| Growth (%) | 109.6 | 5.7 | 7.6 | 12.2 | 10.8 | 12.0 |
| Operating Expenses | 1446 | 1522 | 1664 | 1918 | 2095 | 2327 |
| EBITDA | 321 | 344 | 345 | 337 | 402 | 470 |
| Growth (%) | 75.5 | 7.3 | 0.1 | -2.2 | 19.3 | 16.9 |
| EBITDA Margin (%) | 18.2 | 18.4 | 17.2 | 15.0 | 16.1 | 16.8 |
| Depreciation | 26 | 25 | 24 | 25 | 28 | 30 |
| Other Income | 11 | 9 | 10 | 5 | 5 | 6 |
| EBIT | 305 | 328 | 332 | 317 | 380 | 445 |
| Interest expenses | 140 | 84 | 26 | 16 | 8 | 4 |
| PBT | 121 | 112 | 306 | 291 | 372 | 441 |
| Tax | -20 | -7 | -3 | -20 | 0 | 0 |
| PAT | 142 | 119 | 309 | 310 | 372 | 441 |
| Share of Asso./Minority Int. | 0 | 0 | 0 | 0 | 0 | 0 |
| Adj. PAT | 142 | 119 | 309 | 310 | 372 | 441 |
| Growth (%) | -18.2 | -16.2 | 160.1 | 0.5 | 19.8 | 18.6 |
| EPS | 24.6 | 18.7 | 48.5 | 48.8 | 58.5 | 69.3 |

Balance Sheet

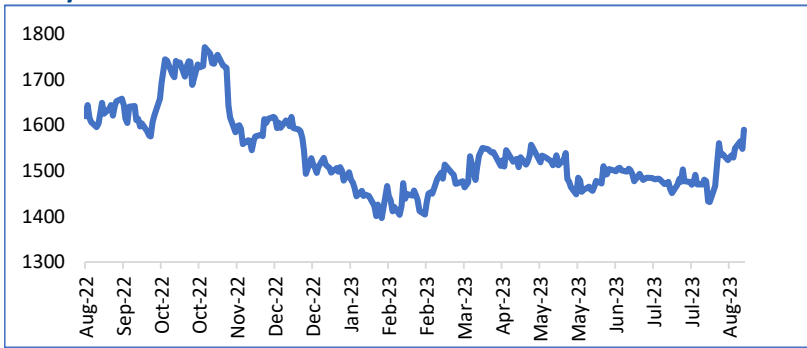
| Particulars (in Rs Cr) - As at March | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| SOURCE OF FUNDS | | | | | | |
| Share Capital | 58 | 64 | 64 | 64 | 64 | 64 |
| Reserves | 3403 | 4504 | 4780 | 5059 | 5393 | 5789 |
| Shareholders' Funds | 3461 | 4568 | 4844 | 5123 | 5456 | 5853 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Debt | 1519 | 550 | 387 | 297 | 26 | 6 |
| Net Deferred Taxes | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Sources of Funds | 4980 | 5118 | 5231 | 5420 | 5482 | 5859 |
| APPLICATION OF FUNDS | | | | | | |
| Net Block & Goodwill | 4674 | 4667 | 4710 | 4733 | 4755 | 4775 |
| CWIP | 4 | 4 | 12 | 13 | 13 | 13 |
| Investments | 110 | 0 | 27 | 70 | 70 | 70 |
| Other Non-Curr. Assets | 137 | 148 | 157 | 179 | 197 | 221 |
| Total Non Current Assets | 4924 | 4820 | 4906 | 4995 | 5035 | 5079 |
| Inventories | 292 | 365 | 362 | 457 | 479 | 536 |
| Debtors | 118 | 94 | 142 | 208 | 233 | 261 |
| Cash & Equivalents | 82 | 253 | 170 | 38 | 41 | 324 |
| Other Current Assets | 172 | 135 | 113 | 134 | 151 | 169 |
| Total Current Assets | 665 | 847 | 787 | 838 | 903 | 1290 |
| Creditors | 504 | 439 | 364 | 313 | 349 | 391 |
| Other Current Liab & Provisions | 106 | 110 | 97 | 100 | 107 | 120 |
| Total Current Liabilities | 610 | 548 | 461 | 413 | 456 | 511 |
| Net Current Assets | 55 | 299 | 326 | 425 | 447 | 779 |
| Total Application of Funds | 4980 | 5118 | 5231 | 5420 | 5482 | 5859 |



Cash Flow Statement

| Particulars (in Rs Cr) | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|------------|
| Reported PBT | 121 | 112 | 306 | 291 | 372 | 441 |
| Non-operating & EO items | 2 | 138 | 1 | 4 | -17 | -25 |
| Interest Expenses | 135 | 77 | 16 | 13 | 8 | 4 |
| Depreciation | 26 | 25 | 24 | 25 | 28 | 30 |
| Working Capital Change | -23 | -66 | -106 | -240 | -21 | -48 |
| Tax Paid | -2 | 0 | -4 | -1 | 0 | 0 |
| OPERATING CASH FLOW (a) | 259 | 287 | 237 | 92 | 370 | 402 |
| Capex | -25 | -17 | -75 | -44 | -50 | -50 |
| Free Cash Flow | 235 | 269 | 162 | 47 | 320 | 352 |
| Investments | 5 | 2 | 1 | -41 | 0 | 0 |
| Non-operating income | 2 | 5 | 15 | 1 | 0 | 0 |
| INVESTING CASH FLOW (b) | -17 | -10 | -59 | -85 | -50 | -50 |
| Debt Issuance / (Repaid) | -50 | -1,101 | -168 | -89 | -272 | -20 |
| Interest Expenses | -140 | -101 | -32 | -16 | -8 | -4 |
| FCFE | 52 | -926 | -23 | -98 | 41 | 328 |
| Share Capital Issuance | 0 | 987 | 0 | 0 | 0 | 0 |
| Dividend | -58 | 0 | -32 | -32 | -38 | -45 |
| FINANCING CASH FLOW (c) | -248 | -216 | -233 | -137 | -317 | -69 |
| NET CASH FLOW (a+b+c) | -6 | 60 | -55 | -130 | 2 | 284 |

One-year Share Price Chart



Key Ratios

| Particulars | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---------------------------------|-------|-------|-------|-------|-------|-------|
| Profitability Ratios (%) | | | | | | |
| EBITDA Margin | 18.2 | 18.4 | 17.2 | 15.0 | 16.1 | 16.8 |
| EBIT Margin | 17.3 | 17.6 | 16.5 | 14.1 | 15.2 | 15.9 |
| APAT Margin | 8.0 | 6.4 | 15.4 | 13.8 | 14.9 | 15.8 |
| RoE | 4.1 | 3.0 | 6.6 | 6.2 | 7.0 | 7.8 |
| RoCE | 6.1 | 6.5 | 6.4 | 6.0 | 7.0 | 7.9 |
| Solvency Ratio (x) | | | | | | |
| Net Debt/EBITDA | 4.5 | 0.9 | 0.6 | 0.8 | 0.0 | -0.7 |
| Net D/E | 0.4 | 0.1 | 0.0 | 0.1 | 0.0 | -0.1 |
| PER SHARE DATA (Rs) | | | | | | |
| EPS | 24.6 | 18.7 | 48.5 | 48.8 | 58.5 | 69.3 |
| CEPS | 29.2 | 22.6 | 52.3 | 52.7 | 62.8 | 74.1 |
| BV | 600.2 | 717.9 | 761.3 | 805.1 | 857.5 | 919.9 |
| Dividend | 5.0 | 5.0 | 5.0 | 5.0 | 6.0 | 7.0 |
| Turnover Ratios (days) | | | | | | |
| Debtor days | 22 | 21 | 21 | 28 | 32 | 32 |
| Inventory days | 54 | 64 | 66 | 66 | 68 | 66 |
| Creditors days | 93 | 92 | 73 | 55 | 48 | 48 |
| Valuation (X) | | | | | | |
| P/E | 65 | 85 | 33 | 33 | 27 | 23 |
| P/BV | 3 | 2 | 2 | 2 | 2 | 2 |
| EV/EBITDA | 36 | 30 | 30 | 31 | 25 | 21 |
| EV / Revenues | 6 | 6 | 5 | 5 | 4 | 3 |
| Dividend Yield (%) | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| Dividend Payout | 20.3 | 26.8 | 10.3 | 10.3 | 10.3 | 10.1 |

(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 cyclical 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.

Disclosure:

I, **Harsh Sheth**, Research Analyst, **MCom**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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