

Dixon Technologies (India) Limited

Issue Snapshot:

Issue Open: Sept 06 – Sept 08 2017

Price Band: Rs. 1760 – 1766

Issue Size: 33,93,426 Equity Shares
(including *Fresh issue of 3,39,751
Equity Shares + Offer for sale 30,53,675
equity shares)

Offer Size: Rs.597.24 crs – 599.28 crs

QIB	atleast	50% eq sh
Retail	Upto	35% eq sh
Non Institutional	atleast	15% eq sh

Face Value: Rs 10

Book value: Rs 179.96 (March 31, 2017)

Bid size: - 8 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 10.98 cr

Post issue Equity: Rs. 11.32 cr

Listing: BSE & NSE

Book Running Lead Manager: IDFC Bank Ltd, IIFL Holdings Ltd, Motilal Oswal Investment Advisors Ltd, Yes Securities Ltd

Registrar to issue: Karvy Computershare Pvt Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	46.20	39.21
Public	53.80	60.79
Total	100.0	100.0

Source for this Note: RHP

* = Assuming issue subscribed at the higher band

Background & Operations:

Dixon Technologies (India) Ltd (DTIL) is the largest home-grown design-focused and solutions company engaged in manufacturing products in the consumer durables, lighting and mobile phones markets in India. Its diversified product portfolio includes (i) consumer electronics like LED TVs; (ii) home appliances like washing machines; (iii) lighting products like LED bulbs and tubelights, downlighters and CFL bulbs; and (iv) mobile phones. It also provides solutions in reverse logistics i.e. repair and refurbishment services of set top boxes, mobile phones and LED TV panels. It is the leading manufacturer of lighting products of CFL, LED bulbs, LED TVs and semi-automatic washing machines in India. Its key customers include Panasonic India Private Limited, Philips Lighting India Limited, Haier Appliance (I) Pvt. Ltd., Gionee, Surya Roshni Limited, Reliance Retail Limited, Intex Technologies (I) Ltd., Mitashi Edutainment Pvt. Ltd., Dish Infra Services Private Limited.

DTIL is a fully integrated end-to-end product and solution suite to original equipment manufacturers (OEMs) ranging from global sourcing, manufacturing, quality testing and packaging to logistics. It is also a leading Original Design Manufacturer (ODM) of lighting products, LED TVs and semi-automatic washing machines in India. As an ODM, it develops and designs products in-house at its R&D centre and manufactures and supplies these products to well-known companies in India who in turn distribute these products under their own brands.

In line with DTIL's focus to provide end to end product solutions, it has backward integrated its major manufacturing processes by developing in-house capabilities in plastic moulding products, sheet metal products, wound components and LED panel assembly. This improves its cost efficiency, reduces dependency on third party suppliers and gives better control on production time and quality of critical components used in the manufacturing of products. DTIL's in-house R&D centre, apart from undertaking electronics hardware designing, system architecture, mechanical design, component engineering and optics design, also assists its customers in cost reduction through product engineering. This enables it to address consumer requirements across geographies, introduce new and unique products in the market and enhance existing products with emerging technologies. As on July 31, 2017, its R&D team consisted of 22 employees, including electrical engineers. Its revenue from ODM contributed to 14.72%, 26.88% and 21.88% of its revenue from operations (net) in Fiscals 2015, 2016 & 2017.

DTIL has six state-of-the-art manufacturing facilities which are strategically located in the states of Uttar Pradesh and Uttarakhand meeting the quality requirements of its customers, including global brands. Out of its six manufacturing facilities, three are located in Noida in the state of Uttar Pradesh and manufacture CFL as well as LED lamps and drivers and mobile phones, while the other three are located at Dehradun in the state of Uttarakhand and manufacture CFL as well as LED lamps and drivers, electronic ballasts, LED TVs and washing machines. Its backward integration process like plastic moulding, sheet metal, wound components and LED panel assembly are carried out at the manufacturing facilities in Dehradun. Its reverse logistics services are carried out from Noida III Facility and 17 other service centres located across India. As on July 31, 2017, it had 682 permanent employees and also employed around 4,030 contract labour at its manufacturing facilities.

Objects of Issue:

The Offer comprises the Fresh Issue and the Offer for Sale. DTIL will not receive any proceeds from the Offer for Sale. The Company proposes to utilize the Net Proceeds towards funding the following objects:

- Repayment/pre-payment, in full or in part, of certain borrowings availed by DTIL.
- Setting up a unit for manufacturing of LED TVs at the Tirupati Facility.
- Enhancement of backward integration capabilities in the lighting products vertical at Dehradun I Facility.
- Upgradation of the information technology infrastructure of DTIL; and
- General corporate purposes

In addition, DTIL expects to receive the benefits of listing of the Equity Shares on the Stock.

Requirement of Funds and Utilisation of Net Proceeds

Particulars	Fiscal 2018	Fiscal 2019	Total
Repayment/pre-payment, in full or in part, of certain borrowings availed by DTIL	220.0	Nil	220.0
Working capital requirement	75.8	Nil	75.8
Finance the enhancement of backward integration capabilities in the lighting products vertical at Dehradun I Facility	88.6	Nil	88.6
Upgradation of the information technology infrastructure of DTIL	53.2	53.2	106.3
General corporate purposes	*	*	*
Total	*	*	*

The table below sets out sales volume across key product portfolio for the period indicated:

S. No.	Product/Vertical	Installed capacity p.a. (in units)(1)	Sales in Fiscal 2017 (in units)
1	Consumer Electronics		
	LED TVs	1,200,000	747,383
2	Lighting products	260,400,000	102,592,760
	LED bulbs	126,000,000	50,303,492
	Downlighters	1,200,000	439,912
	Tubelights and battens	3,600,000	676,834
	LED drivers	6,000,000	2,544,909
	CFL lamps	48,000,000	26,494,167
	Electronic ballasts	15,600,000	11,287,347
	Others (CFL PCB, Deco lamp)	60,000,000	10,846,099
3	Home Appliances		
	Washing machines	550,000	376,842
4	Mobile phones	10,080,000	3,476,423
5	Reverse logistics	3,660,000	1,408,474
	Set top boxes	2,400,000	1,325,186
	Mobile phones	1,200,000	78,702
	LED TV panels	60,000	4,586

Competitive Strengths

Leading market position in key verticals: DTIL is a leading player in most verticals it operates in. It enjoyed market leadership in manufacturing of FPD TVs, washing machines, LED and CFL lights in India in Fiscal 2016. Its experience in manufacturing, successful backward integration and design capabilities, strong relationships with its global suppliers and anchor customers has resulted in DTIL's achieving leading position in its key verticals. Its leading position helps it in buying critical components at competitive prices, achieve operational efficiencies, helps it in continuing to expand its customer base and further strengthens its relationship with anchor customers. It further enhances its ability to diversify into related products and enter new geographies.

Strong relationships with a diverse top-tier customer base: DTIL has established and will continue to focus on strengthening its long-standing relationships with well-known customers across product verticals. Its customers are long term reputed players in the industry. Its relationships with them has enabled it to continuously develop, diversify and improve product portfolio, plan its production in anticipation of demand from retail customers and ensure continuous focus on quality. DTIL's strong relationships with top-tier brands extend across multiple products that allow for further diversification of its revenue streams. Its global customers typically implement stringent approval processes and quality audits checks in the selection of their suppliers, and its ability to be a key supplier and establish long term relationships with many of its customers demonstrates its ability to maintain customer stickiness and strong delivery capabilities. DTIL's strong customer base has not only been instrumental in its success to date, but also will be a strong driver of its future growth and help expand its market share, develop new products and enter newer markets. Its ability to maintain and grow these customer relationships stems from its history of continuously creating value for its customers.

Experienced Promoter and seasoned management team: DTIL's Promoter and Executive Chairman, Sunil Vachani, and Managing Director, Atul B. Lall, have been associated with the Company since its inception. Sunil Vachani has more than two decades of experience in the EMS industry has been awarded the 'Man of Electronics' by CEAMA in the past. Additionally, its senior management also possesses extensive industry and management experience which has given a specialized understanding of the complexities involved in the electronic manufacturing services industry in India and its processes. Its business growth is also attributable to its strong management culture fostered by an entrepreneurial spirit, each product vertical being managed by experienced and hands-on vertical heads having in-depth knowledge of the industry. DTIL's experienced management team has successfully led its operations, increased capacity, revenues and profits since its inception and is passionate and dedicated to its business and innovation. Its highly experienced and dedicated management team enables it

to capture market opportunities, formulate and execute business strategies, manage client expectations as well as proactively manage changes in market conditions.

End to end solutions provider with dedicated research and development capabilities: Since inception, DTIL has expanded its product portfolio, customer base and gained technological expertise in designing and manufacturing of consumer durable and lighting products. It place a high emphasis on integrating its services to continue to serve as an end-to-end product solutions provider and maintain an edge over its competitors. Its dedication to design, manufacturing and its service infrastructure ensure customer satisfaction, foster customer loyalty and generate repeat business. Its capabilities which enable it to provide end-to-end solutions are:

Research and development: Leveraging on the experience and knowledge derived from manufacturing consumer durable products, DTIL has set-up an R&D centre focusing on the research and development of electronics hardware designing, system architecture, mechanical design, component engineering and optics design and provide design enhancement and verification to its customers. As at July 31, 2017, its R&D team consisted of 22 employees including electrical engineers. The R&D team also aims to provide solutions to improve manufacturing efficiency on the existing products, reduce production costs and also assists its customers in designing consumer durable and lighting products by providing design and engineering support.

Global sourcing: With an increase in the scale of DTIL's operations over the years, it has access to and has established continuous relationships with domestic and international suppliers and gained expertise in global procurement of components which meet strict quality standards and adhere to the time schedules laid down by its customers, on competitive rates. The benefits of placing large orders with its suppliers allows it to source at competitive prices thereby improving its margins and ability to win further business.

Backward integration: DTIL has gradually backward integrated its services by setting up in-house manufacturing of plastic moulding for lighting products, LED TVs and washing machines; wound components for lighting products and back light unit clean room for LED TVs. Backward integration provides it the benefit of greater control on the manufacturing process, quality and the corresponding benefits of cost efficiencies thereby improving its margins.

Reverse Logistics: As a step towards further enhancing DTIL's integrated services, it started the reverse logistics vertical which currently includes repair and refurbishment services for STBs, LED panels and mobile phones. These services are provided by trained team members at the Noida III Facility with support from 17 service centres spread across different states in India who are assisted by its R&D team. Its ability to design and manufacture products like LED TVs and mobile phones gives DTIL an edge for repairs and refurbishments of the same and similar products.

Flexible and cost-effective manufacturing capabilities: DTIL has a proven track record of serving product requirements of its customers and continues to pursue greater efficiencies of cost, time, quality and scale in its manufacturing processes. It maintains the flexibility of its manufacturing facilities by measures such as multiple-function training and standardization of equipment. Due to the large scale of its operations, extensive experience in manufacturing, backward integrated manufacturing facilities, global sourcing and processes and availability of skilled and unskilled manpower at its manufacturing facilities, DTIL is able to offer cost effective solutions to its customers while maintaining its margins. Because of its cost-effective solutions, it is able to offer prices which are competitive to similar products imported from China in some of its product verticals. DTIL's attribute its ability to deliver quality products because of its control on manufacturing processes, robust engineering and quality assurance systems.

Strong Financial Performance and stable cash flows: DTIL has a track record of sustained growth in revenue and profitability. Over the last five fiscals ended March 31, 2017, it achieved a CAGR of 33.78% in revenue from operations (net) and 44.36% in EBITDA. Its robust financial position illustrates not only the growth of its operations over the years, but also the effectiveness of allocation of the capital and strong working capital management across its business. Among other things, its strong financial position has enabled to increase its production capacities and diversify into newer products and services through internal accruals without increasing external borrowings. Its financial stability and positive cash flow from operations enable to meet the present and future requirement of the customers. DTIL's strong balance sheet gives its customers the confidence that it will be able to support them in terms of both capabilities and capacities. This also helps to strengthen trust and engagement with its customers, thereby increasing customer stickiness.

Business Strategy:

Continue to focus on ODM model: While OEM sales continue to be a major source of DTIL's revenue, it plans to gradually expand its share of the ODM model of manufacturing. As an ODM, it control the entire manufacturing cycle of a product from the initial stage of designing and are responsible for all the aspects of manufacturing, including planning and sourcing of raw materials and components. DTIL has in the past three years expanded its presence as an ODM in home appliances, lighting products and consumer electronics verticals. Its strategy to move towards the ODM model is to service all major customer requirements across the industry and product verticals. This also helps it in

improving overall profitability as it is able to control all aspects of the manufacturing cycle. Gradually, there is a trend in certain product verticals wherein regional and private labels has been gaining market share and the ODM model allows it to service this market as well.

Continue to strengthen existing product portfolio and diversify into products with attractive growth and profitability prospects: Currently, DTIL's product offerings include consumer electronics, home appliances, lighting products and mobile phones, which accounted for 34.38%, 7.65%, 22.42% and 33.00%, respectively, of its revenue from operations (net) in Fiscal 2017. It plans to continue to increase offerings in its current product verticals as well as diversify into new verticals by tapping into segments which in the view of its management has attractive growth prospects and higher return ratios where it has distinctive competence and compelling value propositions. In the last six years, the company has entered into the LED lighting products, washing machines, mobile phones and the reverse logistics verticals. It expects to gain additional opportunities in the home appliances and lighting product segments. Similarly, it has in the recent past expanded its product portfolio in the lighting segment by adding LED bulbs, T-LEDs, downlighters and battens. DTIL may also explore export opportunities with its existing customers or establish relationships with new customers as and when the opportunity arises. It also plans to continue to enter into joint ventures to initiate diversification into new product segments.

Development of service offerings: DTIL commenced the reverse logistics vertical in the year 2008 with a view to complement its portfolio offering and provide end-to-end solutions in the industry it operates. The reverse logistics vertical is an extension of its existing skill set of manufacturing electronics and it has been able to acquire new customers in this vertical as well as expand the scope of its offerings to the existing customers. The company currently offers repair and refurbishment services for STBs and repair of mobile phones, LCD and LED TVs, LED panels, home theatres, printers etc. With a focus on increasing its expertise as an end-to-end solutions provider, it plans to further expand its reverse logistics portfolio with support of its R&D team. The reverse logistics vertical provides high return on capital employed and has a high potential for growth. Currently DTIL focus only on B2B reverse logistics and do not have consumer facing service centres which is in line with its strategy of building relationships with brand owners and OEMs.

Expand existing relationships with customers into other product verticals: DTIL plans to continue to focus on customers with whom it has long-standing relationships in order to develop and supply more sophisticated, higher margin products. Its experienced R&D team enables it to bring innovations to its existing customers that translate into new opportunities. Its R&D team has the ability to add new features to existing products and develop new product lines and customized software.

Expansion of industrial footprint into new geographies: DTIL seeks to expand its geographical footprint by enhancing current manufacturing capacities and setting up of new manufacturing facilities, especially in South India. It is in the process of setting up a new manufacturing facility in Tirupati, Andhra Pradesh. It also seeks to further enhance its manufacturing capacity across its product verticals as well as set up infrastructure for manufacturing of CCTVs and DVRs, through joint venture, ADTPL, at the Tirupati Facility. This would further help DTIL in strengthening its relationships with its existing customers and gaining new customers as it would be able to penetrate the markets in South India.

Continue to strive for cost leadership: DTIL intends to continue to be the most cost-efficient player in each of the product verticals it will enter. This cost leadership will be achieved through initiatives like having large manufacturing capacities, backward integration and being a sizeable player in the industry in that particular vertical. Economies of scale will also enable the company to continuously improve its operational efficiencies. One of the strategies it has adopted in the past is flexibility in manufacturing lines for different product verticals thereby giving higher utilisation levels despite lower capital investments. DTIL will continue with this strategy of flexible manufacturing and deploying minimum working capital which will also help in attaining cost leadership.

Industry:

The Indian Consumer Electronics & Appliances (CEA) Industry

Indian Consumer Electronics and Appliances (CEA) market has been witnessing sustained double digit growth rate in the past few years. Increasing product awareness, affordable pricing, innovative products and the high disposable incomes have aided in the strong growth in the CEA market in India. Rapidly shrinking replacement cycle for consumer durables is observed as sustaining demand in urban India. The existing low penetration rates and the increasing usage of consumer durables have catapulted rural India to the high demand (30% annual growth) generating segment.



Innovative retail marketing initiatives such as the exchange programs, bundled offers, attractive discounts, freebies and extended warranty services are fuelling consumer spending. Availability of easy financing schemes is also placing more buying power in the hand of consumers. The rapid proliferation of e-commerce/mcommerce and e-tail has contributed to a higher penetration of the CEA market in urban and semi urban centres. Depreciating Rupee and the increasing raw material costs are observed to be the critical restraints faced by the product manufacturers as it negatively impacts their margins. The high reliance of the manufacturing ecosystem on raw material imports has resulted in surge in product prices owing to the restrictive duty structure. This has resulted in some amount of price fluctuation over the past 2-3 years. Inadequacy in the ecosystem is seen as a persisting challenge to the local production of certain consumer electronics products, especially the more sophisticated products such as digital cameras, camcorders, high end FPD TVs which are completely imported.

Market Size Estimates and Forecasts

The CEA market has been witnessing robust growth trends in the past 5 years. Moving forward, the market is expected to foresee double digit growth reinforced by the surging rural consumption, reducing replacement cycles, increasing penetration of lifestyle appliances, and availability of multiple brands at various price points. The CE market revenues is expected to grow at a cumulative average growth rate (CAGR) of 17.2% from FY16 to FY21 while the Appliances segment is expected to grow at a CAGR of 11.6% over the same period, resulting in a CAGR of 16.5% for the overall CEA market. In comparison to global growth averages, this is almost double that of other economies.

India CEA Market Forecast, FY13 to FY21 (INR Bill ion)



Note: CE product market includes Mobiles, AV Players, Camcorders and Digital camera, FPD TV, STB and WM.

CA product market includes AC, Refrigerator, Microwave oven, Water Purifier, Air coolers, Mixer grinders, Blenders, OTG, Electric kettle and rice cookers, Induction cooktop, Food processors, Juicer/ Extractor, Electric shavers, etc.

Consumer Electronics Market

The Mobiles phones represent the largest category in the CE market. Apart from increasing penetration across rural and urban areas, the shortening replacement cycle, need for greater mobile phone data, better features and power management is driving sales of phones in the country. The narrowing gap between a feature phone and smartphone has seen a tilt in the demand for smartphones across the country.

Televisions the next big category as it enjoys an overall penetration of 60%. Despite the high penetration the market is expected to witness continued growth contributed by the replacement demand, increasing preference for a 2nd TV in households, upgradation to a newer technology/advanced model and more purchases in the rural regions.

The following are some of the key factors contributing to the growth of the consumer electronics market:

- Exponential rise in use of mobile phones, increasing penetration of smartphone in urban-rural markets, continuous up gradation and addition of features
- Continually spiralling replacement demand for all consumer electronic products
- Phenomenal penetration of FPD TVs – replacement of Cathode Ray Tubes (CRT) by FPDs and up gradation of FPD TVs – from LCD to LED to 3D/Smart/4K
- Significant growth in consumer durable purchase in rural India which is currently under penetrated.
- The digitization regulation is the driver for the uptake of STB – both cable and satellite.
- Entry of numerous foreign and local brands that enhance the competitive spirit by ushering wide range of offerings at varied price points which increases the option available to consumers
- Easy financing and zero down payment schemes
- Penetration of e-tail and emergence of numerous delivery models. Proliferation on net banking is another critical propellant for the surge in e-tail purchases. Moreover e-tailers offer consumer electronic products at prices very competitive when compared to physical retail and thus encouraging more online purchases.

EMS & ODM Industry

Technology and product dynamism in the electronics industry is increasingly influencing OEMs to restrict their focus to their core competence areas of innovation, differentiation, marketing and distribution. Innovation in business models aimed at enhancing productivity and profitability have been driving OEMs to embrace the services of EMS companies. Economies of scale are also in favour of EMS companies and this is further encouraging OEMs to collaborate with EMS partners for their design, manufacturing and even reverse logistics requirements.

The global EMS market was estimated to be USD 478.0 billion in FY16 and growing at a CAGR of 7% to reach USD 670.1 billion by FY21. Growing demand, higher electronics consumption and faster time to market are some of the factors driving the dependency of OEMs on EMS/ODM companies

Indian EMS Market Overview

A booming consumption economy where demand for consumer and industrial electronics is on an exponential rise has cast the Indian EMS market into the limelight zone. Propelled by the need for import substitution, domestic manufacturing of electronics in India has attracted immense attention from both industry and policy makers. Favourable policy initiatives in recent years along with the changing dynamics in global manufacturing landscape have shifted the focus onto India for being a preferred destination for electronics manufacturing investments.

The EMS market in India has benefitted from this increased focus on manufacturing and overall increased use of electronics in all spheres of life; rising labor cost in other parts of the globe; practice of bigger OEMs to outsource the manufacturing instead of building their own infrastructure. EMS market in India enjoys unique benefits of an explosive domestic demand and the migration of manufacturing from other manufacturing havens driven by multiplicity of factors. These reasons have resulted in the Indian EMS market growing at a higher rate than average global market and is expected to intensify in the next decade.

Critical factors that are expected to influence strong growth in the Indian EMS market are:

- The Make in India initiative and the tax/ duty cuts in the mobile phones segment have driven the growth of local manufacturing on a large scale. More than 40 manufacturing units have been established in India since H2 2015 and more than two thirds of the manufacturing facilities are owned by EMS.
- Many sectors such as consumer electronics, aerospace & defense, healthcare, etc. are warming up to EMS activities owing to cost-effectiveness, increasing local demand, and increased focus on localization
- 100% FDI in defense will boost local manufacturing and the possibility of leveraging EMS route for a range of services which will also assist the development of ecosystem for other electronics segments.

- A number of global majors like Foxconn Technology (India) Private Limited (Foxconn), Flextronics Technologies (India) Private Limited (Flextronics) and Jabil Circuit (India) Private Limited (Jabil) have been operating in India along with domestic majors like Dixon, steadily adding capabilities and capacities to cater to the domestic demand for electronics.
- Government support through various policies, most notably, MSIPS, have been instrumental in encouraging new investment from EMS companies.

Growth Drivers

Consumer electronics OEMs globally are focused on addressing consumer needs, which are dynamic in nature. In order to keep pace with the local needs and introduction of new technologies and designs, continuous investment is required. On the other hand, ever intensifying competition in the market leads to pressure on profitability, thus leaving OEMs with the difficult choice of investing in marketing and design/manufacturing activities. This situation is amplified in the Indian industry as specific product requirement and price sensitivity combine to pose challenges for the OEMs. The dependence on imports for many products has been adversely impacted by the regular volatility in currency.

EMS offer OEMs flexibility in product design updates, faster time to market, cost effectiveness, avoid manufacturing challenges besides value added services like design and aftermarket services. The need to offer a wider portfolio of models is necessary to achieve a presence across the target markets. Wider portfolio also offers the risk of negating the benefits of economies of scale, which the EMS can help de-risk. Thus OEMs can focus on their core functions and avoid spreading their resources thin in their quest to achieve higher performance. On the other hand, the government's stated objective of enhancing manufacturing content within India has been backed up by creation of a favourable environment. Whether it is the customs duty for certain products or removal of duties on components or encouraging local component manufacturing, there has been appreciable movement to drive local manufacturing. This traction is visible in the growth of EMS companies more than direct investments made by OEMs in manufacturing.

This environment has certainly encouraged the EMS segment as OEMs continue to push for partnerships with them. While OEMs with smaller share of the market have naturally gravitated towards EMS to conserve their resources and maintain focus, larger players have also found merit in forging partnerships to retain their edge. Moreover, new players entering India find it easier to bank on EMS companies' services while they focus on building the brand and establishing an effective distribution network. Many of these new players also find the aftermarket services of the EMS a viable component in deepening their presence. The following chart exhibits the upward trend in the potential growth of the Indian EMS industry.

India as a favourable destination for electronics manufacturing

India has always been considered to be a high cost destination with lower ease of doing business. In the recent years, India has made quantum jumps in its global rankings to become a preferred destination for investment. India's electronics industry, hitherto plagued by low demand and value addition was not considered among the top destination by decision makers. This status underwent a change with electronics being recognized as a key segment for policy focus. The National Policy on Electronics (NPE) brought the spotlight on local value addition and an enabling environment was devised.

China, given the long history and dominance in the electronics manufacturing has been the favourite target for companies. The downturn in global economic conditions and years of high growth resulted in downward movement in China's fortunes. Also many countries in the Asian region offered global investors with options which encouraged them to explore. Though the electronics ecosystem is still the strongest, the recent years have witnessed an increase in labour costs which have dampened its standing as a low cost manufacturing location. On the other hand, India has been leveraging its demographic dividend while bringing in the much required flexibility in its manufacturing policies. The conscious efforts to attract global investors have led to increase in FDI and also investor confidence.

The following driving factors reflect the increasing preference for India for electronics manufacturing:

- Stable political government that assures global investors on consistency in policies
- Rising cost of labour in China while India is still at a lower end of this cost
- Creation of National Manufacturing Zones (NMZ), Electronics Manufacturing Clusters (EMC), close coordination between centre and states for investment promotion
- High domestic demand for products and services; local needs
- Investment by EMS companies
- Duties and tariffs to discourage imports and encourage domestic value addition
- Digitalization that accentuates demand for select products

The planned panel manufacturing in India is expected to provide the key raw material for TV in the mid to long term. This will help overcome the import cost on account of the same. Mid-level Chinese FPD manufacturers have more than 10 million annual capacity which enabled them to enjoy sourcing advantages. Currently, the scale is improving for manufacturers in India making them equivalent to Chinese manufacturers in sourcing of open cells. The increasing level of manufacturing of PCBA in India will also help bring down the cost of raw

materials. The states in India are competing with each other to offer best incentives to manufacturers. This includes tax holiday and waiver on utility charges, thus lowering this cost component. The creation of industrial clusters is expected to be highly beneficial in reducing the utilities costs for manufacturers. Labour costs in China is witnessing a steep increase with many manufacturers either moving production out of China or enhancing automation levels. India with its high availability of manpower and relatively less automation is expected to remain highly competitive on labour costs through 2021. The ongoing skills development programmes in India are also expected to offer bigger pool of skilled workforce thus permitting only a marginal increase in the labour cost component till 2021. Tier-II Indian OEMs prefer the ODM engagement model for LED TV and India has a better developed ODM ecosystem which is cost competitive too. Moreover, the prevailing customs duty of 26% on TVs while zero duty on panels makes manufacturing in India an attractive proposition. A major pull factor for major manufacturers is the political friction between Japan and China, which has influenced Japanese brands such as Sony, Panasonic, Toshiba to prefer India as a manufacturing destination for local market and exports.

Competition Assessment in the Indian EMS Market

Indian EMS market comprises of different tiers of companies including the global EMS companies with operations in India, large Indian EMS companies and mid/small Indian EMS companies. The competition concentration is moderate as the top 3 companies account for 28.5% of the market. EMS companies in India have matured from being mere contract manufacturers to end-to-end support partners today. Companies are observed to follow either of the two unique business models – High volume/low mix or Low volume/high mix and seldom do companies adopt a mixed approach.

ODM as the Key Differentiator for EMS companies

The growth in the consumer electronics market in India has interestingly brought about gradual but radical change in the suppliers composition. The market which was dominated by tier-I players witnessed increasing share of tier-II players. The factor behind their increasing acceptance has been the availability of technology and regional presence. While the tier-I players with their financial strength rely on their product design and development, tier- II players are content with brand positioning and not on in-house product capabilities.

The surge in the demand for consumer electronics hasn't been met with a commensurate investment by OEMs in their manufacturing infrastructure. This is because they have the option of EMS companies offering an attractive proposition to produce them locally. This has given impetus to ODM companies which develop designs that become part of the tier-II players' portfolio. Advantage such as nil or low design investment, standard designs to choose from, low cost of product, quicker production turnaround and aftermarket product support makes it a compelling value proposition. The ODM companies with their versatile capabilities in system designs, plastic moulding, PCBA, software engineering and more importantly manufacturing encourage OEMs to increasing the width of their partnership.

SA WM is absent from the portfolio of many global companies. However, in India, without it, the offering is not complete and can impact the market prospects of the OEMs. Instead of investing in the R&D, these companies partner with ODMs like Dixon to pick and choose existing models and also design specific models. The collateral advantage for ODMs through such tie-ups is enhancement of competencies to address newer clients. In the long run, ODMs will also move into feature phones as OEMs focus on smart phones while keeping this high volume segment serviced. FPD TVs with basic features are already being supported by ODMs and this trend will strengthen over the forecast period. LED lamps manufacturing is currently being supported by OEM designs but given the high level of dynamism and tremendous opportunity at the low end of the usage spectrum, ODM play is just a matter of time. Similar to the consumer electronics, LED lamps with its multiplicity of models is expected to follow suit.

Gradually, there is a belief that there is a growing outsourcing trend in certain product verticals wherein regional and private labels have been gaining market share and the ODM model allows Dixon to service this market as well. As the products move towards maturity phase, more products are expected to become standard and fall under the ambit of ODMs. Hence in the long run, ODM companies will become an indispensable element in the success plan of OEMs, from both tiers.

Key Concerns

Highly dependent on certain key customers for a substantial portion of revenues: DTIL depends on certain customers who has contributed to a substantial portion of its total revenues. In the aggregate, its top five customers accounted for 82.93%, 79.43%, 73.28%, 76.95% and 79.67% of its revenue from operations (net) for the years ending March 31, 2017, 2016, 2015, 2014 and 2013, respectively; across each of its five business verticals namely lighting, consumer electronics, home appliances, reverse logistics and mobile phones. Reliance on a limited number of customers for its business may generally involve several risks. Maintaining strong relationships with key customers is, therefore, essential to its business strategy and to the growth of the business. Additionally, the loss of any key customer, may significantly affect the revenues, and it may have difficulty securing comparable levels of business from other customers to offset any loss of revenue from the loss of any of its key customers including its largest customer or even its top five customers. Profitability of DITL also depends on the performance and business of its key customers. DITL relies on the success of its customers in marketing and selling these products and

therefore any negative impact on their reputation may also have an effect on its business. There can be no assurance that the past performance of its business verticals including under ODM or OEM can continue in the future.

Do not obtain firm and long-term volume purchase commitments from customers: DTIL enter into agreements with its customers for specific products, which are generally valid for one to three years and are renewed on a regular basis if both the parties decide to do so. Actual orders are based on purchase orders issued by its customers from time to time. However, such orders may be amended or cancelled prior to finalisation, and should such an amendment or cancellation take place, it may adversely impact the production schedules. Based on these agreements, DTIL's customers provide it with forecasts of the expected demand for certain months and eventually place orders. In addition, it makes significant decisions, including determining the levels of business that it will seek and accept, production schedules, component procurement commitments, personnel requirements and other resource requirements, based on its estimates of customer orders. The requirements of the customers are not restricted to one type of product and therefore variations in demand for certain types of products also requires it to make certain changes in its manufacturing processes thereby affecting production schedules. DTIL often increase staffing, increase capacity, engage sub-contractors and incur other expenses to meet the anticipated demand of its customers, which could cause reductions in its margins if a customer order gets delayed or cancelled or modified.

The markets in which customers compete are characterized by consumers and their rapidly changing preferences: DTIL is a design-focused products and solutions company in India engaged in manufacturing products in the lighting, consumer electronics, home appliances, reverse logistics and mobile phones verticals. The markets in which the company and its customers compete are characterized by rapidly changing technology, evolving industry standards and continuous improvements in products and services. These conditions frequently result in short product life cycles. Some of the customers for whom it manufactures products for may also choose not to continue operations in India for many reasons which can also include customer preferences, among others. If the end-user demand is low for its customers products, companies for who it manufactures products may see significant changes in orders from customers and may experience greater pricing pressures. Therefore, risks that could harm the customers of DTIL's industry could, as a result, adversely affect the Company as well. Additionally, industry-wide competition for market share of various products can result in aggressive pricing practices by its customers and therefore its customers may also choose to import some of these products which provide them better cost benefits as compared to it or source the products from its competitors. This price pressure from DTIL's customers may adversely affect the prices of the products which it supply, which may lead to reduced revenues, lower profit margins or loss of market share etc, any of which would have a material adverse effect on its business, financial condition and results of operations.

Business and results of operations are dependent on the contracts that it enter into: DTIL enter into contracts with its customers which, depending on the customer, may contain terms and conditions which include among others the nature and specification of products to be manufactured and supplied by it, details of vendors of raw materials that are approved by some of its customers, manner of inspection and testing of products manufactured, representation and warranties made by it in relation to its manufacturing capabilities, process to be followed in case of defects, steps to ensure compliance with applicable laws, quality of products, undertakings in relation to protection of intellectual property of its customers, indemnification of its customers due to its negligence or breach of any term of the agreement, defect warranties in relation to the products manufactured or assembled by it. In case of DTIL's ODM business, orders are placed by its customers directly by way of purchase orders which do not contain detailed terms and conditions as in the case of its OEM business. Additionally, non-compliance with the terms of the contractual arrangements may lead to among others damages or penalties, termination of the agreements and will also result in it being unable to attract further business in the future.

Depend on certain suppliers for raw materials and other components: DTIL's production depends on obtaining adequate supplies of components on a timely basis. It purchase its main components from domestic and international third-party component manufacturers that can satisfy its quality standards as well as those of its customers and meet volume requirements and with who it has good relations with. In some cases, pursuant to contractual arrangements and requirements therein, DTIL are required to procure components from certain identified suppliers which are set out by its customers in the agreements that it enter into with them. Therefore, it place reliance on these key suppliers and this generally involves several risks, including a shortage of components, increases in component costs and reduced control over delivery schedules. Also the capacity of certain of these suppliers may not be equipped to cope with increase in orders on short notice or may prefer other customers to make supplies to over it. DTIL's reliance on certain key suppliers could result in delays that could adversely affect its output, results of operations and financial condition. Where alternative sources of components are available, qualification of the alternative suppliers, establishment of reliable supplies from such sources and reliance on them over time may result in delays that could adversely affect its manufacturing processes, results of operations or financial condition.

DTIL may be subject to financial and reputational risks due to product quality and liability issues: In the event that DTIL and its component suppliers are not able to meet the regulatory quality standards, or strict quality standards imposed by its customers, which are applicable to it in its manufacturing processes, it could have an adverse effect on its business, financial condition, and results of operations. To the extent that products shipped by it to its customers do not, or are not deemed to, satisfy such warranties, the company could be responsible for

repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect, as well as for consequential damages. If any of the products sold by it fail to comply with applicable quality standards, it may result in customer dissatisfaction, which may have an adverse effect on the business, sales and results of operations. There can be no assurance that it will be able to recover any losses incurred as a result of product liability in the future from any third party, or that defects in the products sold by it, regardless of whether it is responsible for such defects, would not adversely affect its standing and reputation in the marketplace and customer relationships, result in monetary losses and have a material adverse effect on its business, financial condition and results of operations.

Manufacturing facilities of DTIL are critical to its business: DTIL has total of six manufacturing facilities, which are located in the states of Uttarakhand and Uttar Pradesh. The majority of its revenue is presently from products manufactured at these manufacturing facilities, therefore, any disruption to its manufacturing facilities may result in production shutdowns. In particular, if operations at its manufacturing facilities were to be disrupted as a result of any significant workplace accident, equipment failure, natural disaster, power outage, fire, explosion, terrorism, adverse weather conditions, labour dispute or unrest, obsolescence or other reasons, its financial performance may be adversely affected as a result of its inability to meet customer demand or committed delivery schedules for its products. Further, DTIL is in the process of construction of a manufacturing facility in Dehradun on land which is subject to litigation. In the event that the any adverse order is issued against the company, could suffer losses as to the cost of the land, expenses incurred by it towards the construction of this facility or work stoppages and its financial performance may be adversely affected as a result of inability to meet customer demand or committed delivery schedules for its products which shall be manufactured at this proposed facility.

DTIL's production capacity may not correspond precisely to its production demand which may affect the results of operations: DTIL's customers may require it to have a certain percentage of excess capacity that would allow the Company to meet unexpected increases in purchase orders. On occasion, however, customers may require rapid increases in production beyond its production capacity, and may not have sufficient capacity at any given time to meet sharp increases in these requirements. DTIL's also closely collaborates with its customers to understand the required technology roadmaps, anticipate changes in technological requirements, and discuss possible future solutions. However, any mismatch in production demand and its production capacity can adversely affect the profitability or results of operations.

A significant portion of sales come from consumer electronics vertical: A significant portion of DTIL's revenue is attributed to sales of the consumer electronics vertical which accounted for 34.38%, 55.43% and 64.56% of revenue from operations (net) for the Fiscals 2017, 2016 and 2015, respectively. Demand for these products is affected by, among other things, average selling prices, changes in technology and user preferences. If such demand were to decrease, or average selling prices were to decrease further, its results of operations could be materially adversely affected. It cannot be assured that it would be in a position to be able to service its customers if the selling price of such products to its customer decreases in the future.

Success of the products manufactured by the company is driven by user preferences: DTIL's industry is characterized by the changing technology (including advances in both software and hardware functionality and performance) and user preferences, evolving industry standards and the frequent introduction of new products and enhancements. As a result, the price of its technology driven products tends to decline over the product life cycles, reflecting product obsolescence, decreased costs of input components, decreased demand and increased competition as more manufacturers are able to produce similar products in large numbers as such products become standardized. The trend towards declining average selling prices over the life cycles of its products has resulted in constant downward pressure on margins. To maintain profitability, DTIL's strategy, in addition to improving production efficiency for its existing products, has been to design new and improvised original products designs, prior to its competitors doing the same and thereby being able to retain and acquire new customers. This strategy requires it to obtain and incorporate new hardware, software, communications and peripheral technologies into its product range, some of which are primarily developed by others. DTIL's product strategy focuses on designing and producing products that comply with evolving industry performance standards, meet customer quality expectations and are available at prices appealing to its customers. Since the product design process is sometimes carried out well in advance of production and sales, it must seek to anticipate factors including the expected demand for the product as well as advances in technology. In light of the foregoing, it cannot be sure that new products designed by it will gain market acceptance or will not be adversely affected by new technological changes or new product designs by its competitors. Any delay in developing new products, or commencing commercial production of such new products or in replacing existing products with new products or its continued inability to not be able to predict trends and be able to service its customers may have an adverse effect on the business, financial condition and results of operations.

Overall margins may fluctuate as a result of the product mix manufactured by it: In general, DTIL's overall margins may fluctuate depending on the product mix manufactured. As a result, a change in product mix may decrease the gross margins and operating margins of the Company, which could have a material adverse effect on its business, financial condition and results of operations.

DTIL as well as its customers operate in a highly competitive industry: Some of DTIL's competitors in the industry may have greater design, engineering, manufacturing, financial capabilities, or superior resources. Its customers evaluate the product suppliers based on, among other things, manufacturing capabilities, speed, quality, engineering services, flexibility, and costs. Therefore, it is exposed to risks of its competitors having to better resources than it. The competitive nature of the industry may result in substantial price competition. The industry could become even more competitive if OEMs fail to significantly increase their overall levels of outsourcing or start manufacturing in-house. This would result in an increasingly competitive market with a smaller market share for the existing players. Increased competition could result in significant price competition, reduced revenues, lower profit margins, or loss of market share, any of which would have a material adverse effect on the Company's business, financial condition, and results of operations.

Business requires to obtain and renew certain licenses and permits from government, regulatory authorities: DTIL's business requires to obtain and renew from time to time, certain approvals, licenses, registrations and permits, some of which has expired and for which it has either made or are in the process of making an application for obtaining the approval or its renewal. In addition, it requires certain approvals, licenses, registrations and permissions under various regulations, guidelines, circulars and statutes regulated by authorities such as the Government of India, the State Governments and certain other regulatory and government authorities, for operating its business. Failure by it to renew, maintain or obtain the required permits or approvals at the requisite time may result in the interruption of its operations and may have an adverse effect on its business, financial condition and results of operations.

The GoI has implemented a new national tax regime by imposing GST: The GoI has implemented a comprehensive national GST regime that has combined taxes and levies by the Central and State Governments into a unified rate structure. GST is a dual levy with state GST and central GST. Any future increases or amendments may affect the overall tax efficiency of companies operating in India and may result in significant additional taxes becoming payable. DTIL's business being manufacturing centric, most of the previous central taxes and duties and local state taxes and duties were applicable to its business. DTIL is unable to quantify the impact of this development at this stage. Further, it may also be required to make changes in its IT infrastructure and other internal process to adapt to the requirements of GST. It cannot be assured that if it will be able to effectively carry out such changes. Any increase in its compliance requirements or in its compliance costs may have an adverse effect on its business and results of operations.

Some of DTIL's manufacturing facilities located in Dehradun are availing certain tax benefits which are available for a specified period of time: DTIL benefit from certain tax exemptions provided by the Government of India in relation to some of the manufacturing activities undertaken by it at its Dehradun II Facility and Dehradun III Facility. These tax exemptions are related to tax holiday under section 80IC of the Income Tax Act, 1961. These benefits available to it will expire in Fiscal 2020. When these tax benefits expire or terminate, its tax expense is likely to materially increase thereby impacting the profitability after tax. Its profitability will be affected to the extent that such benefits will not be available beyond the periods currently contemplated. Its profitability may be further affected if it is subject to any dispute with the tax authorities in relation to these benefits or in the event DTIL is unable to comply with the conditions required to be complied with in order to avail itself of these benefits

Success of DTIL depends to an extent on its research and development capabilities and failure to derive the desired benefits from the product research and development efforts may hurt the competitiveness and profitability: Success of DTIL is dependent on its ability to develop new products and continue to work on and improve production capabilities. It makes investments in product research and development, in particular, to improve the quality of its products and expand its new product offerings, which are factors crucial for future growth and prospects. It cannot be assured that its future product research and development initiatives will be successful or be completed within the anticipated time frame or budget, or that its newly developed or improvised products will achieve wide market acceptance from its customers. Even if such products can be commercially successful, there is no guarantee that it will be accepted by its customers and achieve anticipated sales target or in a profitable manner. Additionally, there can be no guarantee that the time and effort that it spends in research and development would be beneficial to the Company and that its existing or potential competitors will not develop products which are similar or superior to its products. If DTIL continues to fail in its product launching efforts, its business, prospects, financial condition and results of operations may be materially and adversely affected.

Profit & Loss

Rs in million

Particulars	FY17	FY16	FY15
Revenue from Operations	24567.6	13894.2	12013.4
Other Income	15.0	17.6	17.9
Total Income	24582.6	13911.7	12031.3
Total Expenditure	23660.2	13307.3	11691.3
Cost of materials consumed	22056.1	12284.4	10952.9
Changes in Inventories	-255.3	-161.3	-108.8
Employee benefits expense	640.1	549.6	368.6

Other expenses	1219.3	634.7	478.7
PBIDT	922.4	604.4	339.9
Interest	127.7	131.1	98.5
PBDT	794.8	473.4	241.5
Depreciation	106.4	84.4	69.0
PBT	688.4	389.0	172.5
Exceptional items	0.0	117.0	0.0
Tax (incl. DT & FBT)	184.6	80.3	42.2
Tax	158.5	70.6	38.7
Deferred Tax	26.2	9.7	3.5
Reported Profit After Tax	503.8	425.7	130.4
Share of Profit /(loss) transferred to minority interest	0.0	0.0	9.0
Share of Profit /(loss) in Associates	0.0	0.0	-2.8
Adj. Profit	503.8	425.7	118.6
EPS (Rs.)	45.9	137.2	38.2
Equity	109.9	31.0	31.0
Face Value	10.0	10.0	10.0
OPM (%)	3.7	4.2	2.7
PATM (%)	2.1	3.1	1.0

Balance Sheet:

Rs in million

Particulars	FY17	FY16	FY15
Equity & Liabilities			
Shareholders Funds	1977.3	1228.2	848.5
Share Capital	109.9	31.0	31.0
Stock Option Outstanding	0.0	19.8	19.2
Reserves and surplus	1867.5	1177.3	798.3
Minority Interest	0.0	0.0	29.9
Non-Current Liabilities	239.7	617.1	486.4
Long-term borrowings	98.1	521.4	407.5
Deferred tax liabilities	97.7	71.6	61.9
Long-term provisions	43.9	24.1	17.0
Current Liabilities	5773.3	2327.0	1878.8
Short-term borrowings	330.6	249.1	391.2
Total outstanding dues of micro enterprises and small enterprises	177.0	89.1	71.9
Total outstanding dues of creditors other than micro enterprises and small enterprises	4873.7	1766.4	1286.9
Other current liabilities	216.6	124.7	85.0
Short term provisions	175.4	97.7	43.8
Total Equity & Liabilities	7990.3	4172.3	3243.5
Assets			
Non-Current Assets	1623.4	1459.4	1196.7
Tangible assets	1370.1	1123.5	968.9
Intangible assets	1.3	1.2	1.2
Capital work in progress	19.6	0.1	0.0
Non-current investments	0.0	1.0	60.3
Trade receivables	8.8	22.7	18.5
Goodwill on consolidation	0.0	111.2	0.0
Long-term loans and advances	223.3	199.7	147.8
Other non-current assets	0.3	0.0	0.0
Current Assets	6366.9	2712.9	2046.8
Inventories	2822.0	1362.8	1130.3
Trade receivables	2793.3	876.1	543.9
Cash and bank balances	153.3	74.6	68.9
Short-term loans and advances	586.0	393.5	293.7
Other current assets	12.3	5.8	10.0
Total Assets	7990.3	4172.3	3243.5

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