



PCBL Ltd

Sector: Carbon Black

12th Sep 2022



WALLFORT
Financial Services Ltd.

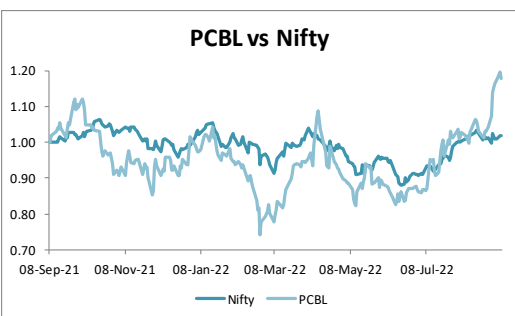
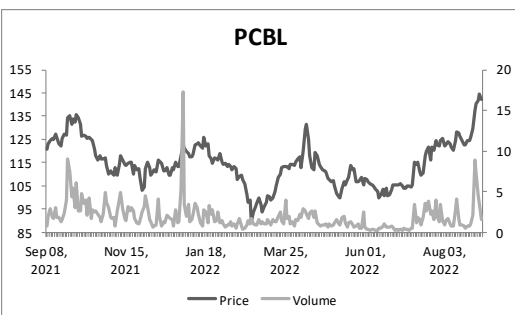
Initiating Coverage Report

Research Analyst: Anik Mitra

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Snapshot	
CMP (08-09-2022)	142
Target(INR)	186
Upside(%)	31%
Recommendation	Strong Buy
Bloomberg Code	PHCB IN
Reuters Code	PHIL.BO



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Investment Rationale

Recovery in the auto market: After a prolonged slowdown, auto market has started reviving in India. Both Commercial Vehicles(CV) & Passenger Vehicles(PV) segments have started showing signs of healthy recovery. PCBL has also shown healthy volume growth of 17% in FY22. Automobile Tyre contributed ~73% to the total revenue of the Company in FY22. Recovery in the auto market is likely to add further volume to the Company.

Although OEM market was weak for prolonged three years. However, replacement demand was almost intact. Around 60-65% of overall tyre demand comes from replacement market. Recovery in the OEM space is likely to aid in demand.

Global shortage of Carbon Black(CB): China is among top global supplier of CB. Due to pollution issue, facilities in China are operating in limited scale. Many facilities had to close down as well. It causes lower export volume from China. Chinese CB export fell from 880 KT in 2018 to 672 KT in 2020. Russia is another major global supplier of CB. Due to ongoing conflict between Russia and Ukraine Russian CB supply has also falling. If the scenario continues, it may create severe global shortage of the product. This is likely to create a big opportunity for India to increase its share in the global market. Being one of the largest manufacturer of CB, PCBL is likely to be a beneficiary of the situation.

Make-in-India theme : Including PCBL there are 6 major manufacturers of CB in India. Although some quantity of CB is exported from the country, still there are some shortfall to meet domestic CB demand. During FY22, India imported total INR1442 cr of CB. With GOI emphasize for make-in-India, there is a big opportunity of import substitution for domestic manufacturers. To avail this opportunity and to cater domestic demand, Indian manufacturers are increasing their capacity.

Capex to cater increasing demand: The Company is operating from four manufacturing facilities having total capacity of 6.03 Lk MTPA. To cater increasing demand a new facility is coming up at Chennai and expected commercialization is by December 2022. Capex for the facility is INR650 cr. Company expects full capacity utilization by 4-6 quarters after commercialization. PCBL is also expanding its existing capacity at Mundra plant by increasing specialty black capacity from 40KT to 112KT. The expansion will be done in two phases at a capex of INR320 cr. First commercialization of new production line is expected by March 2023. With commissioning of expanded new facilities, total capacity of the Company will become 7.9 Lk MTPA

Valuation: Based on the mentioned rational and strong visibility, we are assigning **EV/EBITDA of 6.79x to its FY24E EBITDA to arrive at a price target of 186.**

Stock Scan	
MktCap(INR cr)	5361
Outstanding Shares(in cr)	37.75
Face Value(INR)	1
Dividend yield	3.55%
TTM P/E(x)	11.96

Shareholding pattern	Dec-21	Mar-22	Jun-22
Promoters	51.38	51.38	51.38
Institutional	13.84	14.62	16.24
Non-Institution	33.53	32.75	31.14

Key Data (in INR cr)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	3528.56	3243.54	2659.52	4446.42	5494.61	6477.73	7308.57
Revenue growth	38.54%	-8.08%	-18.01%	67.19%	23.57%	17.89%	12.83%
EBITDA	616.16	464.05	518.04	652.96	794.39	1019.93	1227.35
EBITDA Margin	17.46%	14.31%	19.48%	14.69%	14.46%	15.75%	16.79%
EBITDA growth	63.52%	-24.69%	11.63%	26.04%	21.66%	28.39%	20.34%
PAT	382.66	287.50	313.99	426.34	477.31	632.76	806.07
PAT Margin	10.84%	8.86%	11.81%	9.59%	8.69%	9.77%	11.03%
PAT growth	66.66%	-24.87%	9.21%	35.78%	11.96%	32.57%	27.39%
EPS (INR)	10.14	7.62	8.32	11.29	12.64	16.76	21.35
P/E (x)	14.01	18.65	17.07	12.57	11.23	8.47	6.65
ROE	23.11%	16.85%	16.16%	16.31%	16.51%	19.24%	21.05%
ROCE	18.08%	13.19%	12.48%	13.29%	13.28%	15.48%	17.18%
BVPS (INR)	45.20	51.47	69.24	76.58	87.14	101.44	119.84
P/BV (x)	3.24	3.14	2.76	2.05	1.85	1.63	1.40
EV/EBITDA (x)	9.69	12.40	11.01	9.01	7.44	5.66	4.50



About the Company

PCBL is a Sanjiv Goenka group Company engaged in manufacturing & business of CB. The Company was set up by Mr. K. P. Goenka in 1960 in collaboration with Phillips Petroleum Company, USA, with the core objective of substitution of the import of CB. PCBL is the largest CB manufacturer in India and a strong global player with a significant customer base in 40+ countries.

PCBL is the largest manufacturer of CB in India and 7th largest in the world. The Company sells rubber grade CB under the brand name 'Orient Black'

The Company also manufactures Specialty Black, sells it under the brand name 'Royale Black'. PCBL also received rare USFDA approval for CB used in ink for food contact plastics.

Facilities

The Company has current total manufacturing capacity of 603000 MTPA. PCBL also generates green power having capacity of 91MW.

The Company operates from 4 manufacturing facilities:

- Durgapur (capacity 205 KT CB KT and 32 MW green power)
- Kochi (93 KT CB and 10 MW green power)
- Palej (142 KT CB, 4 dedicated line for Specialty Black having capacity of 32 KTPA, 19 MW green power)
- Mundra (205 KT CB and 32 MW green power)

PCBL is doing a brown field expansion in Mundra plant for expansion of specialty chemical capacity of 40KT to make it 112KT and 1st phase commercialization is expected by 31st March 2023. A new facility is commissioning at Chennai (capacity: 147 KT CB and 24 MW green power). After expansion total capacity will stand at 790000 MTPA.



Carbon Black Industry

CB is a crude derivative finds application in various industries based on its grade. According to its application, there are three major grades of the product. CB is a reinforcing filler used to provide utmost solution in rubber compound. Key grade of CB finds its application in all kind of Automobile Tyres. CB performance chemical is used in conveyor belts, Hoses and ducting, Seals and gaskets etc. Another one type, Specialty grade of CB has non-rubber applications.

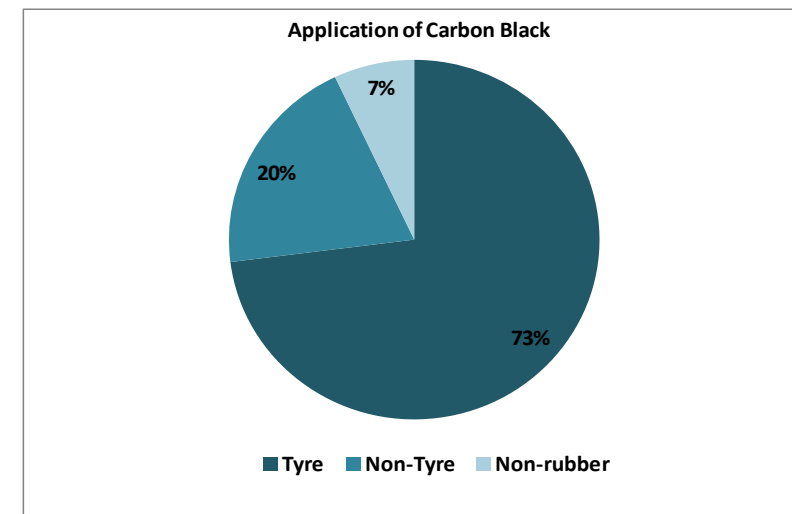
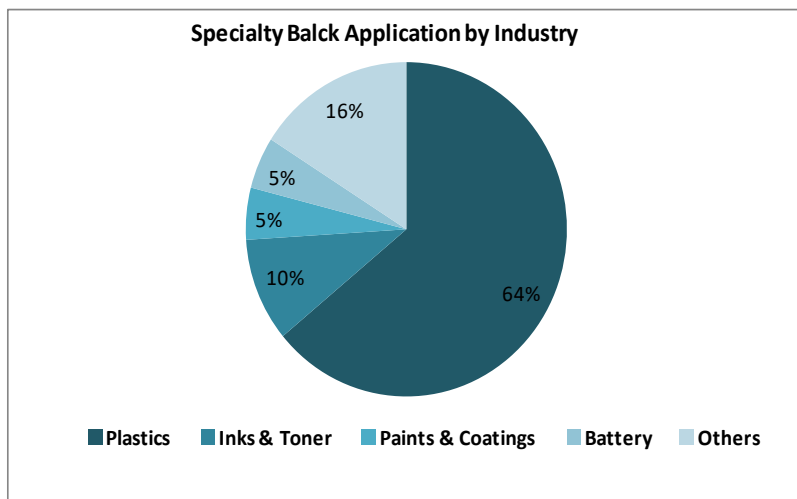
According to an Industry source, the global CB market was USD13.22 billion in 2022 and expected to grow at USD18.09 billion by 2029.

The maximum consumption of CB takes place in the tyre industry. Almost 73% of the CB is consumed in the tyre industry followed by 20% in non-tyre and 7% in non-rubber industry. In a tyre, about 47% is rubber, 22% is CB, 17% metals, 6% textiles and the rest other additives like Zinc Oxide, sulfur, clays and other compounds. According to an Industry source, CB demand in India stood at 1100KT in CY2021 and likely to be 1180 KT in CY23E.

In the non-tyre rubber segment, CB performance chemical finds application in the production of various industrial rubber products as a reinforcement agent and shock absorbent. These products are conveyor belts, shoes, rubber mats, rubber roofing, gasket, seals, hoses, seal, cable and any more.

CB products used for non-rubber applications are categorized as specialty blacks. Specialty Black finds application in Plastic, fibers, pressure pipes, wire and cables, food contact plastics, engineering plastics, inks, paints and coatings, fertilizers, batteries and adhesives & sealants. Plastics application is the major growth driver accounting for almost two-third of the volume share of the specialty black market.

Carbon Black Industry (Contd.....)





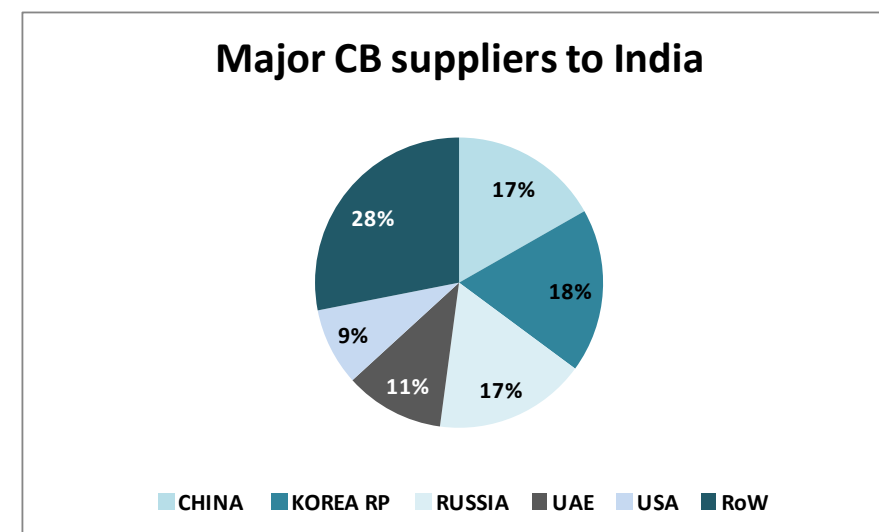
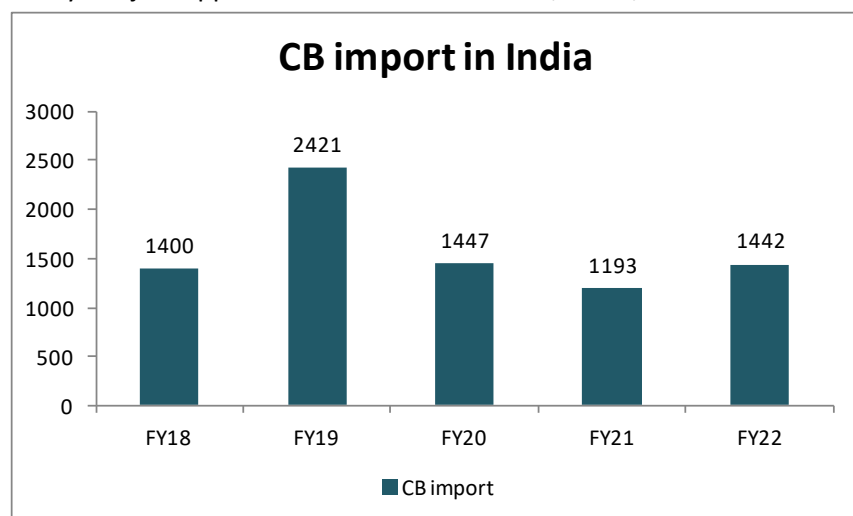
Carbon Black Industry

Global Scenario: China & Russia are the major supplier of CB Globally. Due to pollution issue, facilities in China are operating in limited scale. Many of the facilities had to close down as well. It resulted lower global supply from China. Chinese CB supply fell to 670 KT in 2020 from 880 KT in 2018. India has emerged as a major supplier during this period increasing its share in the global market taking advantage of China plus one strategy of the consumers.

More over, Russia Ukraine war resulted disruption of CB supply from this region. All of these resulted demand supply mismatch globally. There are 10 major CB manufacturers globally who supply ~60% of total global CB demand. PCBL is one among top seven manufacturers globally. Apart from PCBL other major producer of CB are Birla Carbon, Cabot Corporation of US, Orion Engineered Carbon SA of Germany, CSRC group of Taiwan, Omsk Carbon Group of Germany, OCI Company of South Korea are popular names.

Domestic Market: In the domestic CB market PCBL is the biggest player having capacity of 603KTPA followed by Birla Carbon having domestic capacity of 315 KTPA, Himadri Specialty Chemical having capacity of 180 KTPA, Balkrishna Tyres having capacity of 140 KTPA mainly for captive consumption, Epsilon Carbon having capacity of 115 KTPA and continental carbon having capacity of 85 KTPA. Apart from that India imports substantial quantity of CB from various countries where major supplier to India are China, Korea, UAE and Russia. Considering the government impetus for 'make-in-India' and supply shortage in the country, this is an opportunity for domestic manufacturers to increase production. To cater increasing demand and to take the opportunity of import substitution, PCBL is increasing its capacity from 603KTPA to 790KTPA which will be completed by March,2023.

India's import of CB: Although some quantity of CB is exported from India, still to meet domestic demand there are some import. During FY22 INR1442 cr of CB was imported in the country. Major supplier of CB in India are Korea, China, Russia and UAE.





Operation of PCBL

The global CB industry is concentrated, with 10 players accounting for almost 60% of the global production capacity. PCBL is one of top 7 producers of CB in the world.

For PCBL, CB sales towards tyre sector contributed ~73% to the total revenue in FY22. The Company sells rubber grade CB under the brand name 'Orient Black'. The pricing is formula driven and linked to movement in raw material prices, the Company has been able to pass on the increase in input prices to a large extent. The Company has current manufacturing capacity of 6,03,000 MTPA. After expansion, the capacity will stand at 7,90,000 MTPA. PCBL also generates green power having capacity of 91MW.

In the non-tyre rubber segment, CB performance chemical finds application in the production of various industrial rubber products as a reinforcement agent and shock absorbent. The CB performance chemical contributed ~20% to the topline of the Company in FY22.

CB products used for non-rubber applications are categorized as specialty blacks. It finds application in Plastic, fibers, pressure pipes, wire and cables, food contact plastics, engineering plastics, inks, paints and coatings, fertilizers, batteries and adhesives & sealants. Industry wise these blacks also find application used across industries such as automobile, electronics, textiles, construction, packaging etc. Plastics application is the major growth driver accounting for almost two-third of the volume share of the specialty black market. PCBL got USFDA approval for CB used in ink for food contact plastics. The Company manufactures & sells specialty blacks under the brand name 'Royale Black'. In FY22 specialty black contributed ~7% to the topline of the Company. PCBL also has won USFDA approval for CB used in ink for food contact plastics.

Clientele: MRF, CEAT, JK Tyre & Industries, Apollo Tyres, Bridgestone, Goodyear, Michelin, Yokohama, TVS Group, Continental, Toyo, Nexen, Kumho, Contitech, Trelleborg, Camso and Petlas are key customers of the Company.

QIP: The Company raised INR400 crore through a qualified institutional placement (QIP) by issuing 1.63 cr shares at INR244 during Oct-21. The Company proposed to utilize the proceeds towards ongoing and future capital expenditure requirements. The proceeds would also be utilized towards working capital requirements, debt repayment and general corporate purposes

Capex: To cater demand surge, PCBL is doing a brown field expansion in Mundra plant for expansion of specialty chemical capacity of 40KT to make it 112KT. Expansion is planned in 2 phases. Capex for this plant is INR320 cr & expected 1st phase commercialization by 31st March 2023.

The capex is expected to be funded out of a mix of external borrowings, internal accruals and QIP proceeds.

A new facility is commissioning at Chennai(capacity: 147 KT CB and 24 MW green power). The management is optimistic that by end of CY2022 Chennai plant will be on stream.

Raw Materials: Raw material for manufacturing CB are CB Feed Stock (CBFS), CB Oil (CBO), Anthracene Oil (ATO) and Ethylene Bottom Oil (EBO). PCBL sources 95% of the raw materials from Indian Suppliers in terms of its volume and 5% from International suppliers, however, in terms of value, International suppliers contribute 70% of raw material cost. During FY18 to FY21 raw material cost varied from 60% to 67% of the topline. During FY22, raw material cost jumped to 71% of the topline. The product pricing of PCBL with its clients is based on a formula which is linked to movement in raw material prices, the Company has been able to pass on the increase in input prices to a large extent.

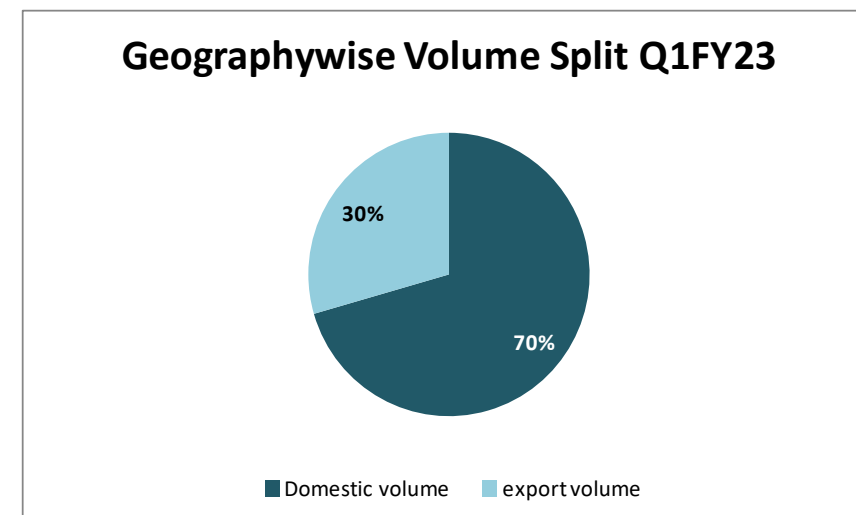
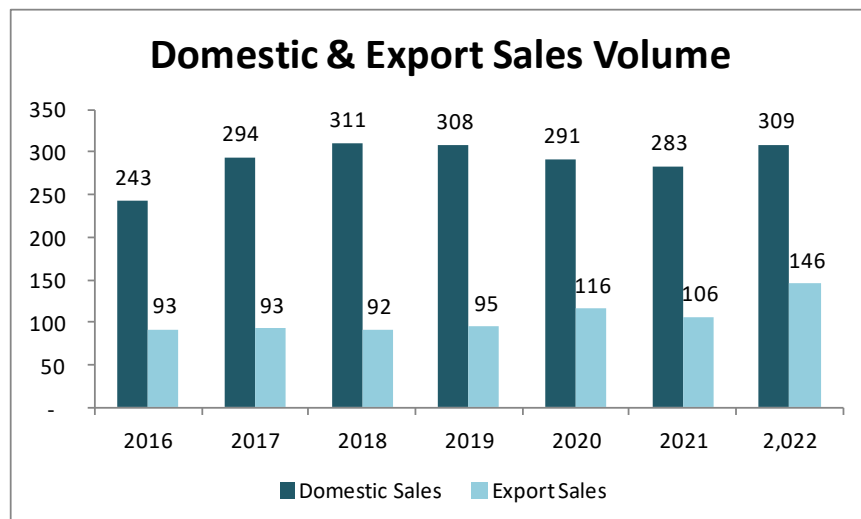
Operation of PCBL (Contd.....)



Operation of PCBL

Domestic & Export Market : PCBL holds the largest CB manufacturing capacity in India. Utilization stood ~64% in FY22. In the said period, contribution of domestic sales in terms of volume stood at 68%. Export contribution has gone up from 27% in FY21 to 32% in FY22. Export Volume has jumped ~37% in FY22. In value terms, revenue from domestic & export business stood at 70% and 30% respectively. Export revenue of the Company jumped close to two fold in FY22. PCBL has strong presence in more than 40 countries.

Specialty Product: Specialty products are somewhat complex product and has very few players in this segment. PCBL has significantly increased specialty product contribution in the total revenue from 1.5% in 2016 to 6.2% in 2021 and 7.6% in 2022. Specialty product is relatively high margin product hence, increase in contribution of the product helps to improve margin profile of the Company.





Result Analysis FY22 & Q1FY23

FY22 Result Analysis: PCBL has sold 4.55 lk MT of CB in FY22 which is 17% higher than FY21. The Company earned INR4563 cr revenue from CB sales in FY22. Top line of the Company jumped 68% over FY21. Realization improved from INR66.6 /kg in FY21 to INR95.6/Kg in FY22. Company's revenue from power has also jumped 28% at INR167 cr in FY22. Overall topline of the Company jumped 67% at INR4446 cr. in FY22. This is the highest ever topline of the Company so far.

Raw material prices has significantly gone up which impacted gross margin of the Company adversely. Gross Margin of the Company shrunk ~1000 bps at 30% in the said period. EBITDA of the Company jumped ~15% at INR653 cr. However due to the better management of employee expenses and other expenses , EBITDA margin shrunk only ~500 bps i.e. less than gross margin contraction. EBITDA margin stood at 14.7% in FY22.

Bottom line of the Company jumped 36% at INR426 cr. Bottom line margin was compressed by ~200 bps at 10%.

Q1FY23 Result Analysis : During Q1FY22 topline of the Company jumped 40% YoY at INR1409 cr. For last 5 quarters PCBL has been consistently reporting revenue at four digit figures. Raw material cost is also on the higher side for last four quarters which stood above 70% of the topline. Gross margin of the Company stood at 27% of the top line in the quarter under discussion.

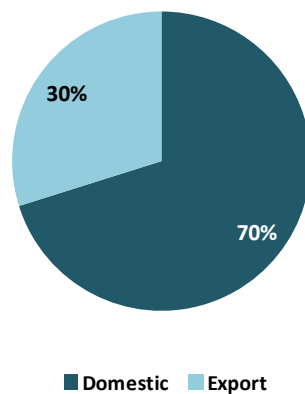
EBITDA grew 19% YoY at INR195 cr. EBITDA margin compressed around 200 bps YoY at 14%.

Bottom line of the Company grew 21% YoY at INR126 cr. Net Profit margin stood at 9% versus 10% a year back.

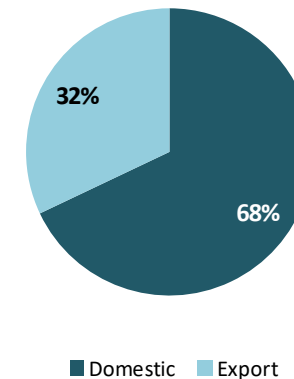


Chart Scan

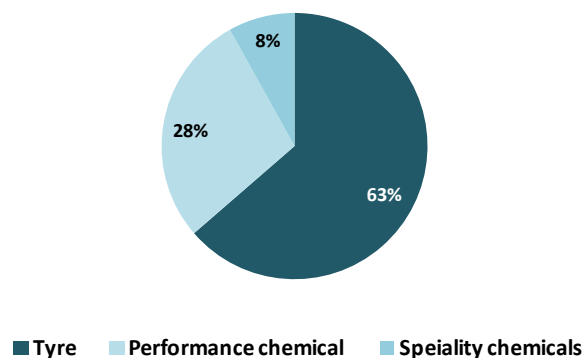
Geography wise Revenue Contribution



Geographywise Volume Contribution



PCBL Revenue Split FY22



PCBL Revenue Split Q1FY23

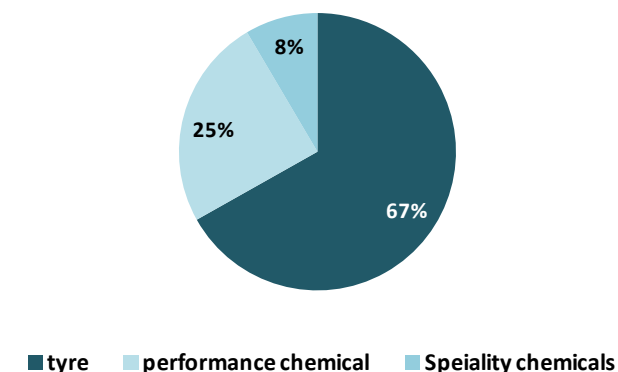
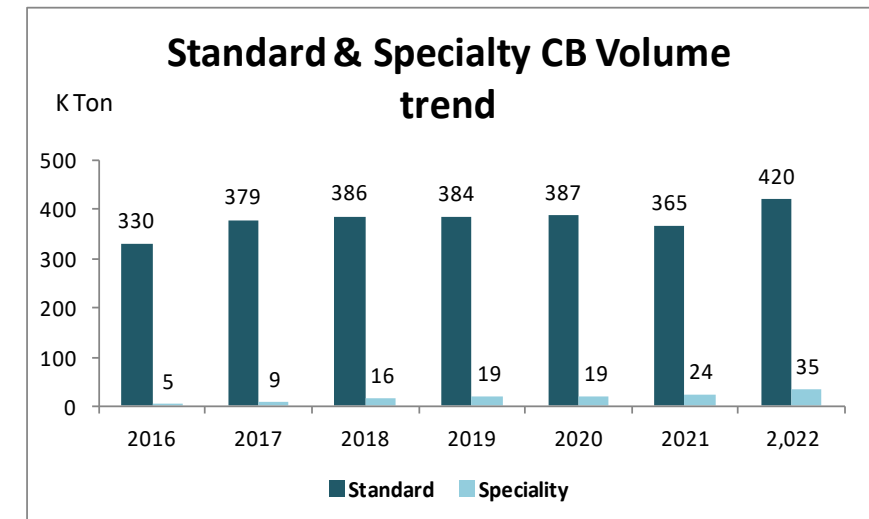
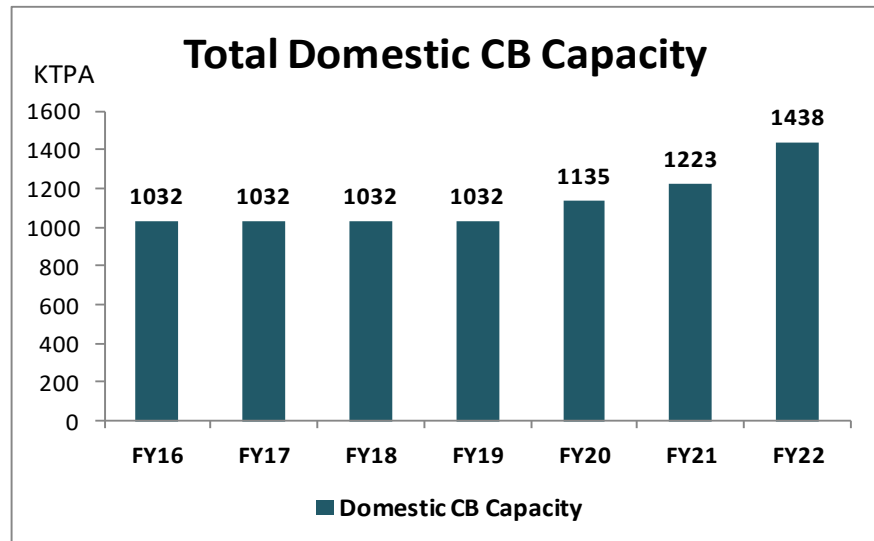
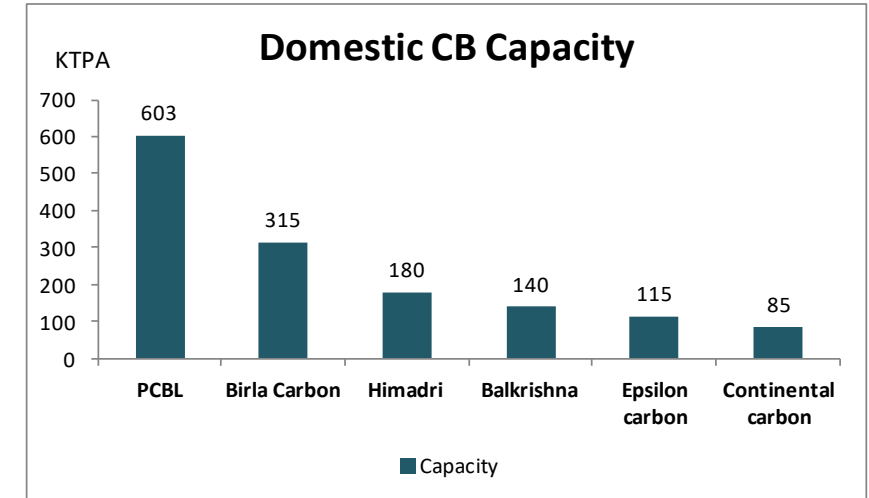
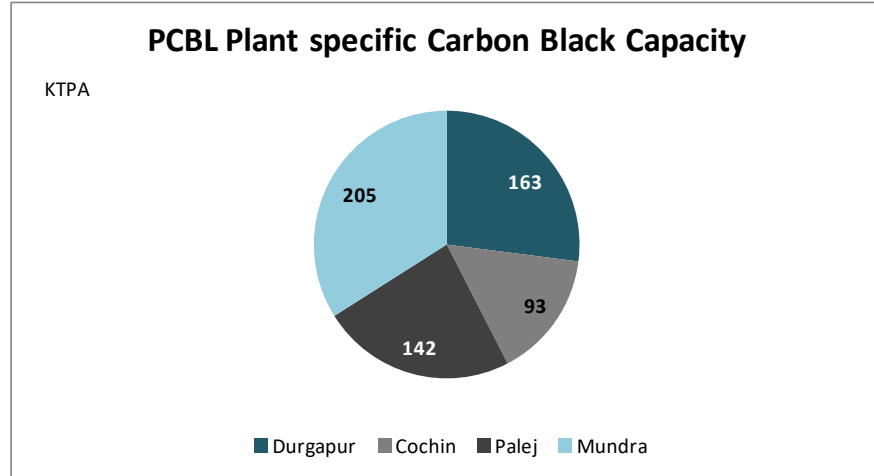




Chart Scan





Outlook: PCBL is currently trading at a discount to its global peer Cabot Corporation and almost in line with another peer Orion Engineered Carbon.

Considering above rational and a special emphasize on global situation due to geopolitical uncertainty and very high gas prices, PCBL seems to be better positioned compared to mentioned listed global peers. It is currently exporting to 40 countries which was 32% in terms of total volume produced by the Company in FY22. So, the opportunity to increase global market share is high.

Valuation: Based on these rational & outlook, we are **assigning EV/EBITDA of 6.79x to its FY24E EBITDA to arrive at a price target of 186.**

Risk

- Silica enforced tyre may replace the demand of rubber made tyres as silica reduces fuel consumption. However, possibility of substituting rubber by silica is remote.
- Manufacturing of CB creates air pollution. Changes in environmental norms may mandate implementing flue gas desulphurization (FGD), which would again require capital expenditure.
- The key raw material for CB is CBFS(CB feed stock) which is a crude derivative. So increase in crude prices impact margin of the Company.
- CBFS can be obtained as a derivative of crude. Alternatively it can be produced from coal tar. In case, crude price goes up, CBFS manufactured from coal tar would become more economical, that may impact operation of PCBL adversely.



Profit & Loss Account

Consolidated P&L statement of PCBL in INR cr	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income From Operations	3529	3244	2660	4446	5495	6478	7309
<i>% growth YoY</i>	<i>39%</i>	<i>-8%</i>	<i>-18%</i>	<i>67%</i>	<i>24%</i>	<i>18%</i>	<i>13%</i>
Consumption of Raw Materials	2352	2186	1584	3169	3885	4534	5043
Increase/Decrease in Stocks	-55	4	25	-35	-9	-29	-14
<i>Gross Margin</i>	<i>35%</i>	<i>32%</i>	<i>40%</i>	<i>30%</i>	<i>29%</i>	<i>30%</i>	<i>31%</i>
Employees Cost	111	135	132	159	209	259	300
Other Expenses	505	455	400	501	615	693	753
Total Expenses	2912	2779	2141	3793	4700	5458	6081
	0	0	0	0	0	0	0
EBITDA	616	464	518	653	794	1020	1227
<i>Margin</i>	<i>17%</i>	<i>14%</i>	<i>19%</i>	<i>15%</i>	<i>14%</i>	<i>16%</i>	<i>17%</i>
Depreciation	66	92	110	121	164	198	183
EBIT	550	372	408	532	630	822	1044
Interest	37	46	34	29	31	28	25
Other Income	20	29	18	29	38	52	58
EBT	533	355	392	532	638	846	1077
Exceptional Items	0	0	0	0	0	0	0
EBT after exceptional item	533	355	392	532	638	846	1077
Tax	150	67	78	105	161	213	271
<i>Tax rate%</i>	<i>28%</i>	<i>19%</i>	<i>20%</i>	<i>20%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>
PAT	383	288	314	426	477	633	806
Margin	11%	9%	12%	10%	9%	10%	11%



Balance Sheet

Consolidated Balance Sheet of PCBL in INR cr	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	34	34	34	38	38	38	38
Reserves & surplus	1621	1672	1909	2576	2853	3252	3792
Shareholders' fund	1656	1706	1943	2614	2891	3289	3830
Non-current liabilities							
Long-term borrowings	270	215	305	220	210	205	215
Deferred tax liabilities (net)	257	255	271	276	276	276	276
Other long-term liabilities	0	104	99	91	165	194	219
Long-term provisions	1	2	1	1	1	1	1
Total non-curretn liabilities	528	576	676	588	652	676	711
Current liabilities							
Short-term borrowings	455	330	302	464	544	500	420
Trade payables	508	419	592	911	962	1188	1218
Other current liabilities	149	189	170	120	210	248	279
Short-term provisions	83	84	84	79	79	79	79
Total current liabilities	1264	1093	1193	1575	1795	2014	1996
Total Equity & Liabilities	3448	3376	3812	4785	5346	5988	6546



Balance Sheet

Consolidated Balance Sheet of PCBL in INR	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Non-current assets							
Tangible assets	1494	1509	1631	1839	2325	2691	2764
Capital work-in-progress	175	306	267	175	186	188	166
Fixed assets	1671	1941	2005	2109	2610	2989	3023
Non-current investments	322	225	201	258	275	304	314
Other non-current assets	26	52	23	146	55	65	73
Total Non-current Assets	2033	2232	2257	2514	2941	3359	3411
Current assets							
Current investments	105	0	0	330	357	376	512
Inventories	460	326	495	604	624	638	684
Trade receivables	653	588	743	1105	1129	1224	1360
Cash and bank balances	115	152	264	159	204	294	468
Other current assets	79	77	36	72	89	97	110
Total current assets	1415	1144	1555	2271	2405	2629	3134
Total Assets	3448	3376	3812	4785	5346	5988	6546



Cash Flow Statement

Cash flow statement of PCBL in INR cr	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Cash Flow from Operating Activities							
Profit before Tax	539	351	390	532	638	846	1077
Depreciation and amortisation expense	66	92	110	121	164	198	183
Finance costs	37	46	34	29	31	28	25
Operating profit before changes in operating assets and liabilities	644	477	514	659	678	754	1206
changes in working capital	-226	122	-63	-234	131	85	-349
Cash generated from operations	418	598	451	425	809	840	857
Income taxes paid (net of refunds)	-128	-66	-66	-104	-161	-213	-271
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	290	533	385	321	649	627	586
Cash Flow from Investing Activities							
Purchase of property, plant and equipment	-233	-231	-115	-170	-325	-282	-128
Purchase of current investments	-2577	-3307	-1977	-3542	0	0	0
Proceeds from sale/redemption of current	2525	3374	1980	3251	0	0	0
NET CASH FLOWS USED IN INVESTING ACTIVITIES	-279	-110	-200	-548	-317	-274	-120
Cash Flow from Financing Activities							
Proceeds from Issue of Equity shares through Qualified Institutions Placement (0	0	0	390	0	0	0
Proceeds from non-current borrowings	183	0	235	120	0	0	0
Repayment of non-current borrowings	-40	-68	-156	-161	0	0	0
Payment of lease liabilities, including interest thereon	0	-23	-29	-29	0	0	0
Increase /(decrease) in cash credit facilities from banks	-172	2	-100	50	0	0	0
Proceeds from current borrowings	1117	733	1089	883	0	0	0
Repayment of current borrowings	-1015	-857	-1062	-815	0	0	0
Dividends paid	-97	-145	-121	-189	-200	-234	-266
Finance cost paid	-47	-31	-36	-33	-31	-28	-25
NET CASH FLOWS GENERATED FROM / (USED IN) FINANCING ACTIVITIES	-70	-388	-180	217	-231	-262	-291
Net (decrease) / increase in Cash and Cash Equivalents	-59	34	6	-10	100	90	174
Opening Cash and Cash Equivalent	133	74	108	114	104	204	294
Closing Cash and Cash Equivalents	74	108	114	104	204	294	468



Ratio Analysis

Ratio Analysis PCBL	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
EPS	10.14	7.62	8.32	11.29	12.64	16.76	21.35
P/E	14.01	18.65	17.07	12.57	11.23	8.47	6.65
ROA	6.66%	11.33%	7.54%	6.56%	7.98%	7.97%	9.67%
ROE	23.11%	16.85%	16.16%	16.31%	16.51%	19.24%	21.05%
ROCE	18.08%	13.19%	12.48%	13.29%	13.28%	15.48%	17.18%
BVPS	43.86	45.20	51.47	69.24	76.58	87.14	101.44
EV	5970	5753	5703	5885	5911	5771	5527
P/BV	3.24	3.14	2.76	2.05	1.85	1.63	1.40
D/E	0.16	0.13	0.16	0.08	0.07	0.06	0.06
Interest coverage ratio	14.95	8.10	12.04	18.29	20.39	29.15	41.11
EV/EBITDA	9.69	12.40	11.01	9.01	7.44	5.66	4.50



Disclaimer and Disclosure

Rating	% upside
Accumulate	0-10%
Buy	10-20%
Strong Buy	above 20%

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