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Pick of the Week

NCC Ltd.

May 21, 2024

RETAILRESEARCH

NCC Ltd.

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Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Infrastructure	Rs 277.75	Buy in Rs. 275-280 band and add on dips in Rs. 245-250 band	Rs. 306	Rs. 326	2-3 quarters

HDFC Scrip Code	NCCLTDEQNR
BSE Code	500294
NSE Code	NCC
Bloomberg	NJCC IN
CMP May 18, 2024	277.75
Equity Capital (Rs Cr)	125.6
Face Value (Rs)	2
Equity Share O/S (Cr)	62.8
Market Cap (Rs Cr)	17443
Book Value (Rs)	108.5
Avg. 52 Wk Volumes	6909811
52 Week High	280.3
52 Week Low	99.6

Share holding Pattern % (Mar, 2024)	
Promoters	22.00
Institutions	37.97
Non Institutions	40.03
Total	100.00

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Rishab A Jain
rishab.jain@hdfcsec.com

Our Take:

NCC Limited, formerly known as Nagarjuna Construction Company Ltd, is as a prominent player in the Indian construction industry, boasting a comprehensive and diversified portfolio across all facets of the construction sector. Over the course of more than four decades, the company has amassed invaluable expertise, successfully delivering a multitude of projects spanning roads, buildings, bridges, irrigation, mining, and more, consistently meeting project deadlines. NCC's proficiency extends to core infrastructure domains, with a proven track record of executing projects for central and state-level agencies, PSUs, and private sector clients alike. The company's capabilities are further amplified by its expansive geographical presence, providing an extended reach into diverse opportunities. NCC possesses the requisite qualifications to competitively bid for and undertake substantial endeavors in the construction realm.

Company's order book has remained resilient, providing revenue visibility for 2-3 years. It has a robust order backlog of Rs. 57,536 cr (3.1x FY24 revenue) and going forward the management expects order inflows to gain momentum given the strong emphasis in affordable housing, Jal Jeevan mission and roads & expressway and metro & railway segment. On the back of robust order pipeline across key sectors, the management aims to add over Rs 20,000+ Cr orders in FY25 (due to sluggish ordering during elections).

Over last few years, NCC has been focusing on monetization of its non-core subsidiaries, reduction in debt levels and improving the receivables in order to boost its liquidity position. These efforts have resulted into improvement in execution and better operating performance.

We had issued a stock update report on NCC dated Feb 19th, 2024 (link); both the targets were achieved within our time frame. Given the robust order book, pick-up in execution, and healthy balance sheet, we are issuing a stock update report.

Valuation & Recommendation:

The company has a well-diversified order book, robust execution capabilities, strong focus on debt reduction and improvement in working capital. Segment diversity across building, mining, railways, electrical, water & environment is one of the key differentiators at NCC. Company's vast experience and proven execution capabilities can help leverage rising opportunities in the buildings, water infra, transportation, metros, defence and airports as the awarding momentum pickup. The government announced in the budget that it will build 2 cr affordable houses in next 5 years. Expenditure on roads, bridges and infra has been increased in the past 3 years and the budget foresees an increase in capex by another 11%. All these may have a positive impact on NCC.
The management has given a revenue guidance from ~15%+ for FY25 on account of elections. Softening of raw materials is likely to improve

margins going ahead. The company expects the EBITDA margin to be in the range of 9.5-10%. Current order book contains more projects with an escalation clause, which insulates against any escalation in the input prices. Given the all-time high order book, execution ramp-up, and robust balance sheet, we rework FY25/26E estimates.

We expect Revenue/EBITDA/PAT to grow at CAGR of 14%/19.2%/32.4% over FY24-26E We think the base case fair value of the stock is Rs 306 (16 x FY26E EPS) and the bull case fair value is Rs 326 (17x FY26E EPS) over the next two-three quarters. Investors can buy the stock in the band of Rs 275-280 (14.5x FY26E EPS) and add more on dips to Rs 245-250 band (12.8x FY26E EPS).

Financial Summary:

Particulars (Rs cr)	Q4FY24	Q4FY23	YoY-%	Q3FY24	QoQ-%	FY22	FY23	FY24	FY25E	FY26E
Total Operating Income	5446.0	4016.3	35.6	4746.9	14.7	9930.0	13351.3	18314.4	20970.0	23800.9
EBITDA	509.7	423.8	20.3	479.3	6.3	996.1	1342.5	1648.1	2002.6	2344.4
PAT	187.4	177.7	5.5	212.8	-12.0	490.1	569.2	688.0	939.4	1206.7
Adjusted PAT	229.8	177.7	29.3	212.8	8.0	346.0	569.2	631.5	939.4	1206.7
Diluted EPS (Rs)	3.8	2.9	29.3	3.5	8.0	5.7	9.1	10.1	15.0	19.2
RoE-%						6.2	9.4	9.6	13.0	14.8
P/E (x)						49.0	30.6	27.6	18.6	14.5
EV/EBITDA (x)						17.6	13.2	10.6	8.7	7.4

(Source: Company, Hdfcsec)

Q4FY24 Result Update:

- On a standalone basis, company recorded a revenue of Rs. 5,466 cr vs Rs. 4,016 cr last year same quarter (+36% YoY). Revenue was primarily driven by Buildings and Electrical division mostly by UP Jal Jeevan mission. Gross Profit came in at Rs. 771 cr vs Rs. 634 cr (+22% YoY). Gross profit margin reported stood at 14.2% vs 15.8% (-170 bps).
- EBITDA came in at Rs, 510 cr vs Rs. 424 cr (+20% YoY)
- PAT reported Rs. 188 cr vs Rs. 178 cr (+6% YoY). EBITDA margins reported was 9.4% vs 10%. (+60 bps)
- At a consolidated level, the company clocked a revenue of Rs. 6,530 cr vs Rs. 4,980 cr growing at 31%.

Q4FY24 Concall Summary:

- **Revenue and Margin Guidance:** NCC expects to receive orders worth Rs. 20,000-22,000 cr in FY25 (due to sluggish ordering during elections) with a revenue guidance of ~15%+. EBITDA margins to remain between 9.5% to 10%.
- **Order Book:** NCC received total orders of Rs. 6,044 cr in the quarter and executed orders worth Rs. 5,949 cr resulting in a closing order book of Rs. 57,536 cr.
- Company has secured 3 smart meters' project worth Rs. 7,403 cr out of which 2 projects required SPV which NCC has incorporated

for orders worth Rs. 5,756 cr. Out of this, SPV will retain Rs. 2,095 cr and the remaining has been given as contract.

- **Credit Rating:** Company received AA- Stable credit rating from CARE on account of multiple factors like established track record, diversified and strong order book position, portfolio expansion in smart metering projects, cash accruals, comfortable leverage and capital structure with reduction in debt and gross current asset days.
- **Project Completion:** UP Jal Jeevan mission projects have been executed 53% of the total Rs. 16,900 cr order book. Remaining projects will be completed in about 12 months. Malad project which is of Rs. 3,802 cr, has received environmental clearance and the company will start executing this project by next financial year.
- **Pending Litigation Status:** With respect to NCC Vizag urban deal, the company received a total of Rs. 119 cr in FY24 and will receive the balance Rs. 35 cr in FY25 along with Rs. 50 cr against the loan, from the buyer of the project. Company has also reached a settlement with TAQA and paid Rs. 90 cr in March 2024 of the total Rs 180 cr. The balance will be paid in FY25. NCC has taken a write off of Rs. 55 cr in Q4GY24 on this count. It has also settled all cases with respect to PTTL and the lenders have given no objection certificate. In the Sembcorp dispute, NCC has received arbitration award of Rs. 200 cr out of which it has already received Rs.150 cr so far.
- **Capex and debt:** Capex in the quarter was Rs.114 cr and the debt stands at Rs. 1,005 cr which has come down by Rs. 400 cr compared to last quarter. Working capital has been reduced to 76 days. Capex guidance for FY25 is Rs.250 cr. Retention money, mobilization advance and loans to subsidiary in FY24 were Rs. 1,505 cr, Rs. 2,311 cr and Rs. 509 cr respectively. Debt guidance given is Rs. 500 cr by FY25 end.
- **NCC needs to invest** Rs.500 cr as equity contribution in the smart meters project (order value Rs. 3,660 cr). It plans to rope in strategic partners whereby its contribution will come down to around Rs.170 cr.

Key Triggers

Diversified and Robust order Book:

NCC is one the few players in the construction industry which has the skill sets and capabilities to cater needs of diverse segments, diverse geographies and diverse clients. The company has presence in multiple growth segment - buildings & housing, roads, water & environment, irrigation, electrical, metals, mining and railways. Diversified presence gives the company multiple growth levers and makes it better positioned to offset the impact of slowdown in any particular segment. It has a pan India presence including key states like Maharashtra, Andhra Pradesh, Telangana, Karnataka, Gujarat, UP, West Bengal and Tamil Nadu with regional offices in 13 cities. NCC has been a preferred vendor for marquee clients in building segments such as UP Housing Development Board, AAI, AIIMS, NBCC, BMRCL and MMRDA. Most of the orders are from the central government/ state government and central government sponsored schemes.

Diversified capabilities and wider geographic presence further enhances its addressable opportunities. Company's order book has remained resilient, providing revenue visibility for 2-3 years. NCC saw sharp growth of 15% in order book to Rs 57,536 cr as at Mar'24, aided by robust order inflows to the tune of Rs 27,283 cr in FY24. The order book is well diversified across sectors - building/transportation/water & railways/electrical/mining/ irrigation/others contributing 39/17/12/20/1/0/20%. Company aims to receive orders to the tune of Rs. 20,000 -22,000 cr. Also going forward the management expects order inflows to gain momentum given the strong emphasis in affordable housing, Jal Jeevan mission, electricals (RTSS scheme), roads & expressway and metro & railway segment. In terms of execution, the company has given a topline guidance at ~15% YoY.

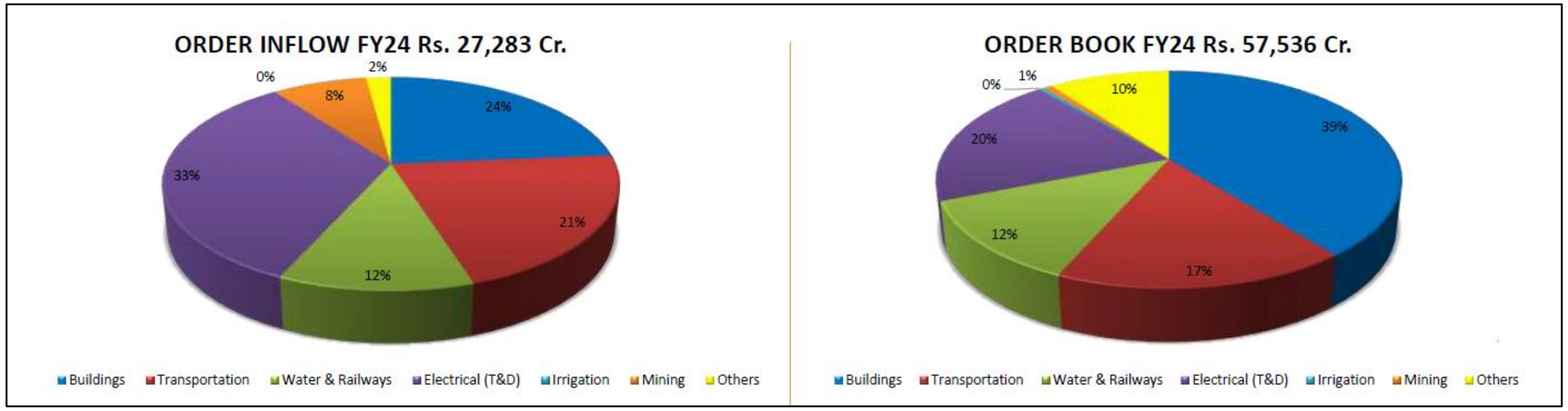
Major Projects under execution:

Design, supply, install & commission Advance Metering Infrastructure (AMI) in Maharashtra	5,756 Cr	Construction of Viaduct & Stations for Bangalore Metro Rail, Bangalore	2,167 Cr
Construction of One of the Largest Waste water treatment plants in Malad, Mumbai	3,833 Cr	International Trade Towers, Nauroji Nagar, New Delhi	1,652 Cr
Construction of twin tunnel from Goregaon to Khindipada, Mulund in Mumbai.	3,214 Cr	All India Institute of Medical Sciences at Awantipora, Jammu & Kashmir	1,649 Cr
Develop India International Horticulture Market at Ganaur, Sonepat, Haryana	2,199 Cr	Survey, Design, Drawings & Construction of multi group of villages water supply scheme in Agra	1,635 Cr
Residential Buildings/ Towers & Townships including O&M at Karwar, Karnataka	2,467 Cr	Mumbai Coastal Road Project North - Bangur Nagar to Mindspace Malad Interchange & GMLR Connector in Mumbai, Maharashtra	1,304 Cr
Design, supply, install & commission Advance Metering Infrastructure (AMI) in Bihar	2,324 Cr	Mine Development & Operation at Pachhwara North Coal Block in Jharkhand	3,043 Cr*

* The value represents projected turnover for next 3 years

(Source: Company, Hdfcsec)

Order book Diversification:



(Source: Company, Hdfcsec)

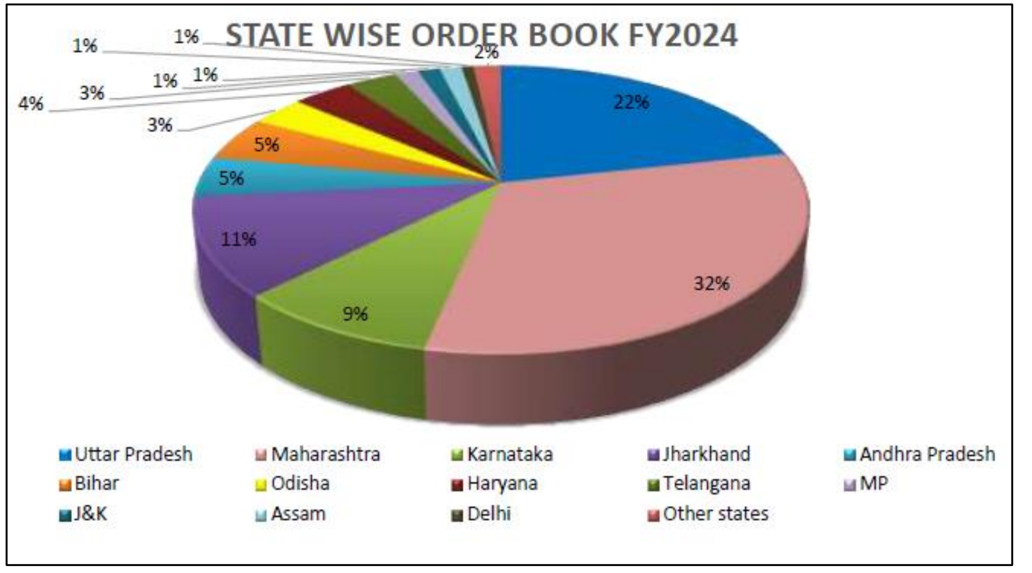
Strong order prospects to support growth:

NCC is well placed to capitalize on huge infrastructure pipeline and continued momentum in awarding activities which translates into healthy order inflows. Strong order book and its track record of execution would support heathy topline growth with margins stable at ~10%. The management has maintained guidance of order inflows to the tune of ~Rs 20,000-22,000 cr in FY25, which is likely to be exceeded. Healthy traction is expected in the water projects, Jal Jeevan Mission, and opportunities in affordable housing, roads & expressway and metro & railway. The recent budget was focused more on capital spending and could see pick-up in order momentum and improve prospects in NCC's core segments. The National Infrastructure Pipeline (NIP) envisions investments of Rs 142 lakh crore during 2020-2025 to provide world-class infrastructure across the country. Budget 2023 saw the FM stepping the pedal on capex with major thrust on National Infrastructure Pipeline (NIP) targets. The Recent Budget 2024 clearly focused more on capex spending with the government's plans to provide a significant thrust to the country's infrastructure development. The capital investment outlay for FY25E has been increased by 11.1% to Rs 11.11 trillion which is 3.4% of the GDP. Increase in capital outlay was led by sectors like railways, roads, defence, housing, water (Jal Jeevan), metro and logistic infra projects. Major schemes like Pradhan Mantri Awas Yojana saw 49% increase in FY25BE compared to FY24RE. and Jal Jeevan Mission saw a 27% increase in FY25BE compared to FY23RE. The government's re-energised focus on water will enhance opportunities for NCC in water transport, distribution and storage. The company is actively participating in upcoming airport bids, while data centre projects are under evaluation. The management has set target to grow at 15% annually in the long run.

Focus on debt reduction:

The company has brought down the debt levels to Rs. 1000cr, which is lowest in last one and a half decade. Standalone Gross Debt stood at Rs 1,005 cr as of Mar'24 vs Rs 980 cr as of Mar'23. This likely to normalize to lower levels in the coming quarters and will still remain close to ~Rs 500 cr by FY25. Improvement in collection and receipt of mobilization advance brought down the debt levels.

Order Book Geographical Breakup:



(Source: Company, Hdfcsec)

Risks & Concerns:

Project execution risk: Infrastructure projects involve complex design and engineering, significant procurement of equipment and supplies, extensive construction management, and other activities conducted over extended periods, sometimes in remote locations. This could lead to cost and time overruns, thereby impacting its profitability. Also it faces the risk of being blacklisted due to quality or delay issues.

Contractual Risk: Contractual obligations for quality, timeliness and other specific terms and conditions are crucial for orders. Inability to adhere to them could attract legal action.

Raw materials price risk: The price of key raw materials such as cement, bricks, sand, and steel constantly fluctuates with the changing demand-supply dynamics which may lead to a rise in input cost, which in turn, put pressure on the company's margins and profitability.

Litigation: Over the last few years, NCC has been caught up in multiple litigations. With respect to TAQA arbitrations, in this quarter, there is good progress on settlement. Company has worked out on a scheme of payments if its accepted by both the senior top level management. Company does not see any further major liability apart from interest liability for this year.

Political Risk / State Elections: Typically, when there is change in the political party in a state; infrastructure works & projects awarded by the old party is questioned and could face problem of termination.

Company Background:

NCC Limited (NCC), erstwhile Nagarjuna Construction Company Ltd, is one of the largest well diversified construction companies in India with a strong foothold in every segment of construction sector. It has presence across varied verticals of infrastructure space and undertakes civil construction for buildings & housing, roads, water & environment, mining, electrical, power among others. It also has exposure to the real estate development space and owns land bank in various cities in South India.

NCC, through its subsidiary, NCC Urban takes up urban infrastructure projects such as development of residential & commercial complexes, serviced apartments, SEZs, integrated townships and complexes with advanced building techniques. The company also undertakes the development of infrastructure projects through Government concessions (road and energy projects); which are long term infrastructure projects that offer stable revenue stream. The company has also created a niche in infrastructure markets of the GCC through its subsidiaries with key focus on roads, building and water network.

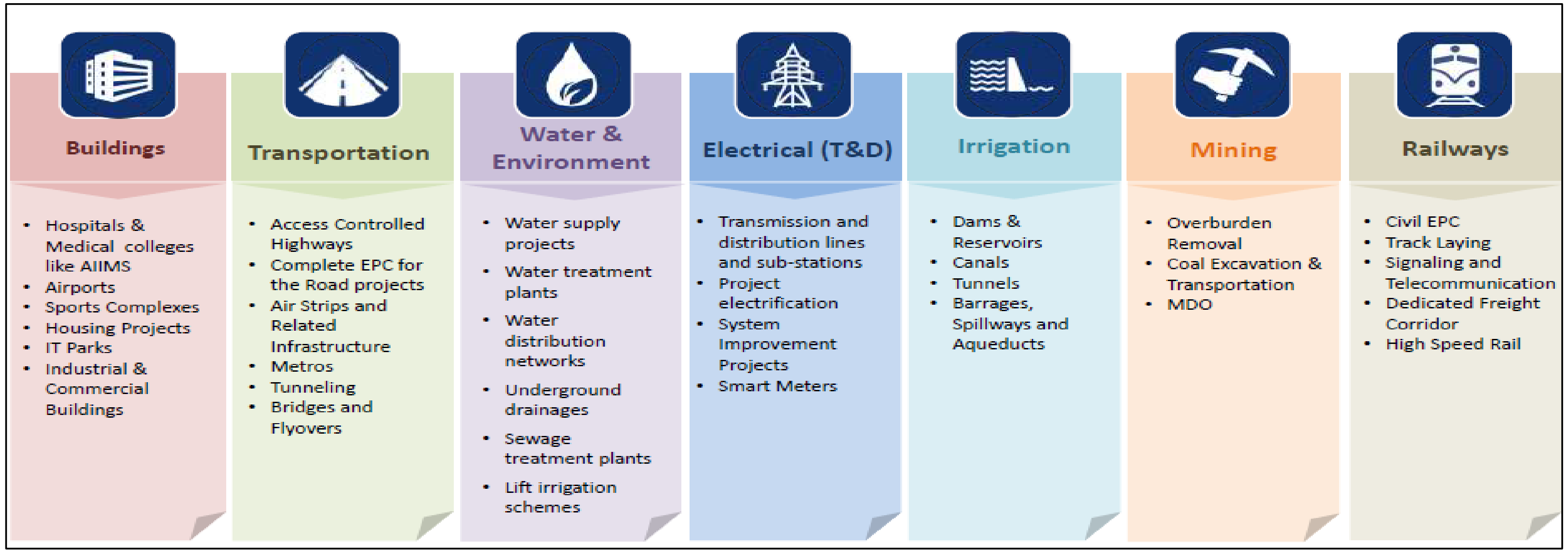
The company has well diversified order book, robust execution capabilities and strong focus on debt reduction and improvement of working capital.

Company Structure:

S. No.	Particulars	FY24 Revenue Mix %
1	**Construction**	97.77%
	(NCC Limited, Pachhwara Coal Mining Private Limited, J Kumar NCC Private Limited and Others)	
2	**Real Estate**	1.80%
	(NCC Urban Infrastructure Limited)	
3	**Others**	0.43%
	(BOT Roads & Others)	
	Total	**100.00%**

(Source: Company, Hdfcsec)

Business Vertical:



(Source: Company, Hdfcsec)

Peer Comparison:

Company	Market Cap (cr)	Sales (cr)			EBITDA (cr)			PAT (cr)			ROE (%)			P/E		
		FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
IRB Infra	41,609	7409	8256	8972	3331	3878	4271	605	1016	1296	4.5	7.2	8.6	68.9	40.1	32.2
NCC	**17,438**	**18314**	**20970**	**23800**	**1648**	**2002**	**2344**	**688**	**939**	**1206**	**9.6**	**13.0**	**14.8**	**27.6**	**18.6**	**14.5**
L&T	4,76,213	221112	253658	287787	23493	28255	33773	13059	16082	20097	14.9	17.1	18.6	36.9	29.7	24.0
RVNL	62,488	218892	240945	267493	13528	14799	16586	15743	15268	16847	18.0	16.3	15.9	39.7	41.1	37.0

(Source: Bloomberg, Hdfcsec)

Key Clientele:

(Source: Company, Hdfcsec)

Financials (Standalone)

Income Statement

(Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	9930.0	13351.3	18314.4	20970.0	23800.9
Growth (%)	***36.9***	***29.8***	***34.9***	***14.5***	***13.5***
Operating Expenses	8933.9	12008.8	16666.3	18967.4	21456.5
EBITDA	**996.1**	**1342.5**	**1648.1**	**2002.6**	**2344.4**
Growth (%)	***16.5***	***34.8***	***22.8***	***21.5***	***17.1***
EBITDA Margin (%)	***10.0***	***10.1***	***9.0***	***9.6***	***9.9***
Depreciation	182.3	199.8	209.2	213.5	223.9
EBIT	**813.8**	**1142.7**	**1438.9**	**1789.2**	**2120.5**
Other Income	108.2	152.3	124.1	121.8	124.6
Interest expenses	459.6	510.0	595.1	624.1	592.1
PBT	**462.4**	**785.0**	**967.9**	**1286.9**	**1653.0**
Tax	117.9	215.8	279.9	347.5	446.3
RPAT	**490.1**	**569.2**	**688.0**	**939.4**	**1206.7**
APAT	**346.0**	**569.2**	**631.5**	**939.4**	**1206.7**
Growth (%)	***32.3***	***64.5***	***10.9***	***48.8***	***28.4***
EPS	5.7	9.1	10.1	15.0	19.2

Balance Sheet

As at March (Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	122.0	125.6	125.6	125.6	125.6
Reserves	5681.2	6196.3	6687.1	7501.0	8582.1
Shareholders' Funds	**5803.2**	**6321.9**	**6812.7**	**7626.6**	**8707.7**
Total Debt	1184.1	979.6	1005.1	975.1	925.1
Net Deferred Taxes	-54.1	-47.5	-58.7	-41.1	-41.1
Long Term Provisions & Others	72.4	78.4	91.4	78.0	78.0
Total Source of Funds	**7005.5**	**7332.3**	**7850.5**	**8638.6**	**9669.7**
APPLICATION OF FUNDS					
Net Block & Goodwill	1224.3	1171.0	1192.5	1272.0	1351.4
CWIP	110.5	14.7	39.9	39.9	39.9
Other Non-Current Assets	1721.8	2145.5	2402.4	2436.2	2491.3
Total Non-Current Assets	**3056.6**	**3331.3**	**3634.8**	**3748.1**	**3882.6**
Inventories	787.8	1077.8	1433.8	1436.3	1499.8
Trade Receivables	2384.3	2788.1	2652.8	2568.6	2929.4
Cash & Equivalents	558.5	645.6	1044.1	1000.5	966.6
Other Current Assets	6985.3	7709.3	8511.9	9134.9	10237.7
Total Current Assets	**10715.9**	**12220.9**	**13642.6**	**14140.2**	**15633.5**
Trade Payables	4260.7	4800.6	6095.1	6377.2	6586.0
Other Current Liab & Provisions	2506.3	3419.3	3331.8	2872.6	3260.4
Total Current Liabilities	**6766.9**	**8219.8**	**9426.9**	**9249.8**	**9846.4**
Net Current Assets	3949.0	4001.1	4215.7	4890.5	5787.1
Total Application of Funds	**7005.5**	**7332.3**	**7850.4**	**8638.6**	**9669.7**

(Source: Company,Hdfcsec)

Cash Flow Statement

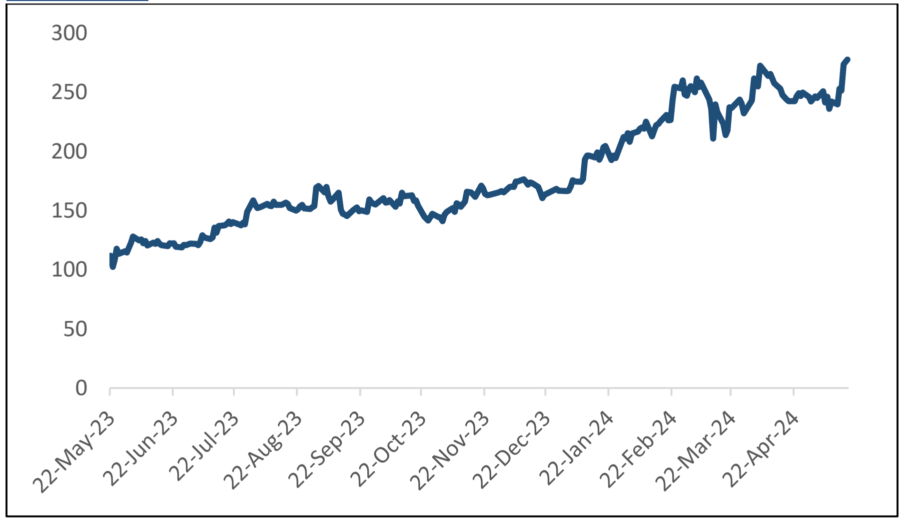
(Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	608.0	785.0	911.4	1053.9	1222.4
Non-operating & EO items	-176.7	-110.9	331.9	-124.3	-99.4
Interest Expenses	459.6	510.0	595.1	496.9	506.8
Depreciation	182.3	199.8	209.2	202.6	220.7
Working Capital Change	395.9	-235.5	-413.1	-874.1	-550.4
Tax Paid	-173.3	-275.3	-335.1	-265.3	-307.7
OPERATING CASH FLOW (a)	**1296.0**	**873.1**	**1299.4**	**489.7**	**992.4**
Capex	-167.8	-217.9	-242.3	-79.6	-79.3
Free Cash Flow	1128.2	655.2	1057.1	410.1	913.1
Investments	36.7	85.5	-90.2	-33.8	-55.1
INVESTING CASH FLOW (b)	**-131.1**	**-132.4**	**-332.5**	**-113.4**	**-134.5**
Debt Issuance / (Repaid)	-604.8	-204.5	20.2	-30.0	-50.0
Interest Expenses	-445.6	-498.3	-587.9	-496.9	-506.8
FCFE	77.8	-47.6	489.4	-116.8	356.2
Share Capital Issuance	0.0	79.7	0.0	0.0	0.0
Dividend	-48.8	-125.6	-138.1	-125.6	-125.6
FINANCING CASH FLOW (c)	**-1099.2**	**-748.7**	**-705.8**	**-652.4**	**-682.4**
NET CASH FLOW (a+b+c)	**65.7**	**-8.0**	**261.1**	**-276.1**	**175.5**

Key Ratios

	FY22	FY23	FY24	FY25E	FY26E
PROFITABILITY RATIOS (%)					
EBITDA Margin	10.0	10.1	9.0	9.6	9.9
EBIT Margin	8.2	8.6	7.9	8.5	8.9
APAT Margin	3.5	4.3	3.4	4.5	5.1
RoE	6.2	9.4	9.6	13.0	14.8
RoCE	11.9	12.8	14.2	13.8	14.7
SOLVENCY RATIO (x)					
Debt/EBITDA (x)	1.2	0.7	0.6	0.5	0.4
Net D/E (x)	0.1	0.1	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	5.7	9.1	10.1	15.0	19.2
CEPS	11.0	12.2	14.3	18.4	22.8
Dividend	2.0	2.2	2.2	2.2	2.2
BVPS	95.2	100.7	108.5	121.4	138.7
TURNOVER RATIOS (days)					
Debtor days	88	75	69	70	68
Inventory days	29	22	25	25	23
Creditor days	157	135	123	111	101
VALUATION					
P/E (x)	49.0	30.6	27.6	18.6	14.5
P/BV (x)	2.9	2.8	2.6	2.3	2.0
EV/EBITDA (x)	17.6	13.2	10.6	8.7	7.4
EV/Revenue (x)	1.8	1.3	1.0	0.8	0.7
Dividend Yield (%)	0.7	0.8	0.8	0.8	0.8
Dividend Payout (%)	0.4	0.2	0.2	0.1	0.1

(Source: Company, Hdfcsec)

Price chart



RISHAB A JAIN

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HDFC Sec Retail Research Rating description

Green Rating stocks

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

Yellow Rating stocks

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

Red Rating stocks

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

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400
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