

## Analyst

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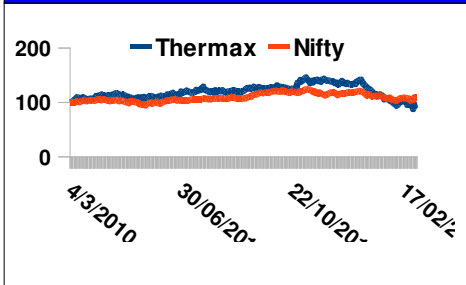
## Investment details

CMP (Rs)	609.7
Target (Rs)	750
Upside potential (%)	23.01
Horizon (Month)	12

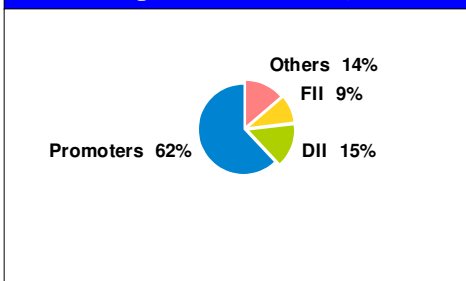
## Profile

Industry	Capital goods
Market cap (Rs cr)	7160.32
Face value (Rs)	2
52 week high (Rs)	930
52 week low (Rs)	536.55
Book value (Rs)	109.67
Price/ book value	6.64
PE ratio	28.74
Dividend (%)	250
Beta	0.56
1 year return (%)	-4.17
Avg. daily volume (6m)	14,524

## Performance: Nifty Vs Thermax



## Shareholding as on December 31, 2010



# Thermax Limited

*Thermax Limited (Thermax) is one of the largest manufacturer of boilers and chillers. Order backlog is improving and currently stands at Rs 7154 cr. While, there has been decline in new order inflows during the year, with the pick up in industrial capex, order booking is likely to improve further. It has advantage of latest technologies through JVs and technology agreements with several well known international players such as Lambion Energy Solutions, Babcock & Wilcox, SPX Netherlands, GE Water, etc. Recent acquisition of Danstoker is to help it increasing its market share in Europe. It is also likely to benefit from growth in captive power generation on the back of frequent load shedding and general power deficit. We give a 'Buy' recommendation on the stock with a target of Rs 750 and an horizon of 12 months.*

## Investment rationale

**Improving order book position:** As on end of December 2010, the order backlog of the company stood at Rs 7154 cr. During Q3FY11, order inflows were to the tune of Rs 1,234 cr. In the domestic market, major order intake is from cement, steel and power sector. The order flow for the quarter was around 20% less than the order booked during the same period a year ago. Management expects better order inflow in Q4FY11.

**Advantage of technology through different JVs and technology tie-ups:** Thermax has several alliances with global majors and that gives it advantage of latest technologies. It recently, entered into an alliance with Lambion Energy Solutions, which has expertise in converting waste to energy. The JV with Babcock & Wilcox is to engineer, manufacture and supply supercritical boilers for the Indian power sector. It also has JV and technology agreement with SPX Netherlands, GE Water, Wehrle, Alliance with Balcke-Dürr, etc.

**Acquisition of Danstoker to help it increasing its market share in Europe:** Thermax acquired Danstoker A/S and its German subsidiary, Omnical Kessel on November 2010. Danstoker manufactures biomass based boilers and waste heat recovery systems. It has a strong presence in Nordic countries, Germany, UK, France and Russia.

**Pick up in industrial capex to boost the order book:** Thermax is one of the largest players in the boilers and chillers segment. This segment accounts for almost half of the top line. Going ahead, industrial capex is likely to pick up gradually and that will have a positive impact on the order booking and so on the top line.

**Financial and Valuation:** Top line of the company registered a three year CAGR of 13.19%. FY10 and FY09 has not been very encouraging year due to economic slowdown. EBITDA and EBIT margins shrank significantly. On the other hand, its debt to equity ratio stood at merely 0.01 for FY10. Cash on the balance sheet stood at Rs 650 cr as on end of December 2010. While during the last three year its ROCE and ROE has been on declining trend, return ratios are well above 39% and 24%, respectively for FY10. During the last nine months, financial performance has been quite robust. Profit margins improved significantly. Going ahead financials are likely to improve with the pick up in industrial capex. Currently, it is trading at a price to earning and price to book value of 28.74 and 6.64. Given the growth prospects and positioning of Thermax, **We give a 'Buy' recommendation on the stock with a target of Rs 750 and an investment horizon of 12 months.**

Particulars	FY10	FY09	FY08	FY07	3 year CAGR
Net Sales	3215	3272	3436	2217	13
EBITDA	197	373	383	253	-8
EBIT	153	338	360	233	-13
APAT	259	284	287	204	8
PE	29				
P/B	7				

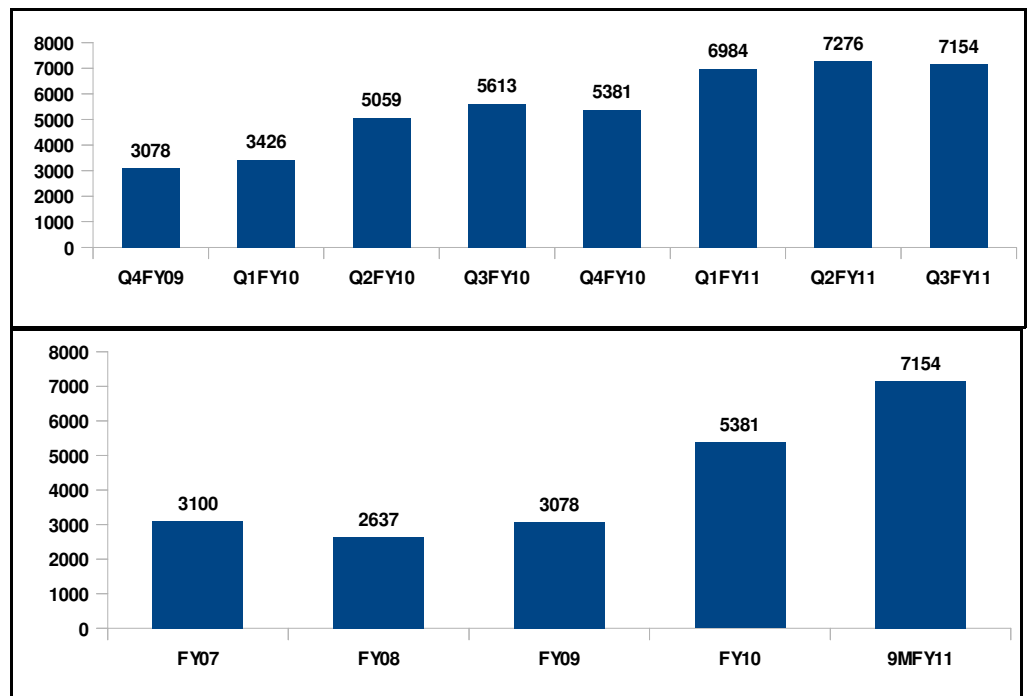
Source: BCCIR, Company data

## Key Investment arguments

### Improving order book position

As on end of December 2010, the order backlog of the company stood at Rs 7154 cr constituted of Rs 6092 crore from energy segment and Rs 1062 crore from environment. During Q3FY11, order inflows were to the tune of Rs 1,234 cr comprising of Rs 938 cr from energy and Rs 296 cr from environment segment. In the domestic market, major order intake is from cement, steel and power sector. The order flow for the quarter was around 20% less than the order booked during the same period a year ago. Also, on the nine month basis the order inflows have been lesser by 9% to around Rs 4470 cr. The lower order inflow is mainly due to absence of Large power plants (LPP) or Independent power producer (IIP) segment projects. Because of rising interest rate, such projects are not conducive. However, despite this Thermax has been able to do this order booking by increasing its market share in rest of the areas such as medium power plants, captive power plants and the smaller ones. It expects better order flow in Q4FY11.

### Order backlog on quarterly and yearly basis



Source: Company data, BCCIR (Figures in Rs cr)

### Strong financials

Thermax has sound financials. Balance sheet has negligible amount of debt at Rs 7.96 cr given its net worth of Rs 1078.21 cr for FY10. Its debt to equity ratio comes out to be merely 0.01 for FY10. Cash on the balance sheet stood at Rs 670.21 for FY10 and Rs 650 cr as on end of December 2010. While during the last three year its ROCE and ROE has been on declining trend, return ratios are well above 39% and 24%, respectively. Though, EBIT and APAT margins declined in FY10, for the period 9MFY11, margins have improved.

### **Advantage of technology through different JVs and technology tie-ups**

**Alliance with Lambion Energy Solutions:** In May 2010, Thermax signed a technology transfer license agreement with Lambion Energy Solutions, a German engineering company with expertise in converting waste to energy. This will provide Thermax with high efficiency combustion systems for using biomass, high in moisture content, for energy generation. These will be integrated in its boilers and heaters with heat output ranging from 4 MW to 30 MW. This licensing agreement is valid for five years and Thermax will have an exclusive license to market heating systems, equipped with the new technology in India and SAARC countries, South East Asia, Middle East and Africa.

**Alliance with Babcock & Wilcox for supercritical Boilers:** In March 2010, Thermax Limited and Babcock & Wilcox Power Generation Group, Inc. (B&W PGG), a global leader in power generation industry entered into a JV to engineer, manufacture and supply supercritical boilers for the Indian power sector. The JV will also manufacture subcritical boilers over 300 MW in size. Thermax will own 51% and B&W PGG will have 49% ownership in the JV. B&W pioneered the development of supercritical boilers, and this technology will allow the new JV to contribute to efficient power generation in the mega thermal plants planned to meet the massive energy requirements of the country. In the first phase, supercritical boilers will be manufactured in a new facility with an annual capacity of 3000 MW. Thermax and B&W has long business relationship and in February 2008, they signed a technology transfer agreement for manufacturing sub-critical power boilers.

**Alliance with SPX Netherlands:** Thermax SPX Energy Technologies Ltd was formed recently as a JV between Thermax (51%) and SPX Netherlands BV (49%), a wholly owned subsidiary of SPX Corporation, USA, a leader in providing power plant equipment and services. The JV will operate on the basis of a license agreement with Balcke-Durr GmbH, Germany, a wholly-owned subsidiary of SPX Corporation and will provide technology solution for projects above 300 MW. The idea is to integrate SPX solution for large infrastructure projects and Thermax's energy-environment expertise to help power plants meet stringent emission norms and improve their thermal efficiencies. Initially, the JV will cover air pollution control systems, electrostatic precipitators (ESPs) for high ash coal based power plants, bag filters and equipment for reducing SO<sub>x</sub>-NO<sub>x</sub> emissions, and rotary heat exchanges.

**Alliance with GE Water:** Thermax signs two technology agreements with GE Water in July 2009. Under the first agreement, GE's ultrafiltration and membrane bioreactor (MBR) technology will be utilised by Thermax for wastewater treatment, reuse and process water in India's commercial and institutional sectors. Due to regulations related to recycling of wastewater treatment, it is estimated that the need for advanced wastewater treatment for India's commercial and institutional sectors is expanding more than 50% per year. The second agreement provides for the distribution of GE's reverse osmosis (RO) membranes to customers in India for water and wastewater treatment applications.

**Alliance with Wehrle:** Thermax Limited and Wehrle Umwelt GmbH, Germany, signed a technology agreement in July 2009, for treatment of hard-to-treat industrial effluents, which are "highly loaded" in terms of biological and chemical oxygen demand (BOD and COD) in water bodies. The technology tie up will address pharmaceutical and bulk drug manufacturers, dyes and pigments, chemical, pulp and paper, and distilleries.

**Alliance with Balcke-Dürr:** In October 2007, Thermax Limited and Balcke-Dürr GmbH, Germany signed a Technical Know How Transfer and License Agreement for dry and wet Electrostatic Precipitators(ESPs) — air pollution control equipment for power, industrial and utility segments upto 300 MW. The agreement covers leading European and American ESP designs of Balcke-Dürr.

**Alliance with Georgia-Pacific Chemicals:** Thermax Limited and Georgia-Pacific Chemicals LLC, based in Atlanta, Ga., USA, signed a technology and manufacturing license agreement in October 2007, for performance enhancing chemicals, which find extensive applications in the paper industry. The agreement is valid for seven years and enables Thermax to expand its business in the paper industry in India and South East Asia.

**Acquisition of Danstoker to help it increasing its market share in Europe**

Thermax acquired Danstoker A/S, a leading European boiler manufacturer and its German subsidiary, Omnical Kessel on November 2010 with acquisition value of Euro 29.5 million. Danstoker is into manufacturing biomass based boilers and waste heat recovery systems for a wide range of industries. Its core products are in the range of 200 to 100,000 kg of steam / hour and design pressures upto 86 bar. Its current sale is Euro 40 million. It has made over 1200 installations in Europe and has a strong presence in Nordic countries, Germany, UK, France and Russia.

Omnical specializes in boilers using oil and gas as well as biomass, and also has waste heat recovery products. Operating predominantly within Germany, Omnical has supplier relationships with European and Japanese gas turbine manufacturers for their requirements of waste heat recovery systems. Renewable and green products account for over 50 % of the revenues of the Danstoker Group. This acquisition will enable Thermax to leverage the ongoing renewable energy movement of Europe aimed at generating 20% of its overall energy generation from renewables. Global energy generation from biomass is expected to double in next 20 years. Also, this acquisition offers a strategic fit for Thermax's packaged boiler business.

**Pick up in industrial capex to boost the order book**

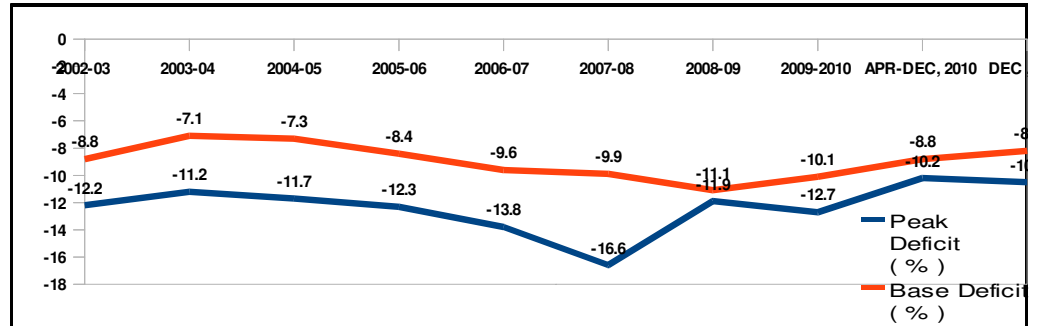
Thermax is one of the largest players in the boilers and chillers segment. This segment accounts for almost half of the top line. During FY10, this segment contributed around 46.68% to the revenues. As per different estimates GDP growth for 2011-12 is likely to remain around 8%. Capital goods IIP remained robust except a few months such as August, September and December 2010. Going ahead, industrial capex is likely to pick up gradually and that will have a positive impact on the order booking and so on the top line.

**Addition in captive power a major growth driver**

India has been a power deficit country. Power deficit has come down significantly since FY08, it is still higher at a peak deficit of -10.5% in December 2010. Also, while government planned huge addition in five year plans but actual implementation has remained very poor. This has led several corporates to go for captive power for continuous flow of power. Captive power generation capacity in India is over 55,000 MW and meets around 35% of the consumption need of Indian industry. Captive generating capacity connected to the Grid is around 19509 MW.

Given the poor implementation ratio of power addition, the move towards setting up captive power plants is likely to continue and this will be a major growth driver of revenues from power division.

### Peak and base power deficit



Source: CEA

### Concerns

#### Any slowdown in economic growth

Revenues of Thermax is likely to hit if the domestic as well as global economic growth slows down. Europe is yet to show strong economic growth number.

#### Rising interest rates

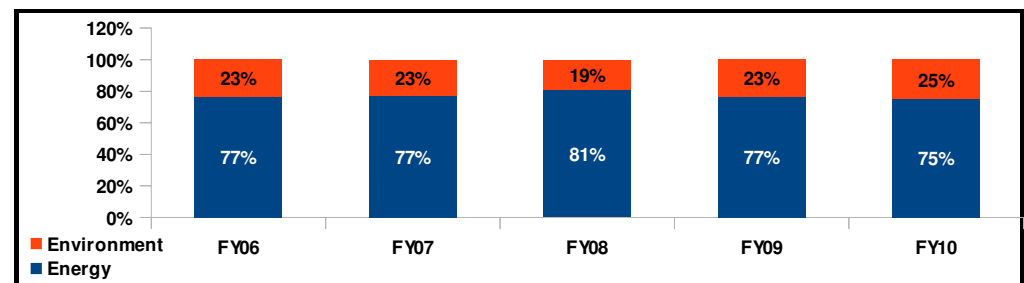
Rising interest rate will have negative impact on its top line as high interest rate is not very conducive for infrastructure projects especially for IPPs of the smaller capacity.

### Financial and valuation

#### Revenue analysis

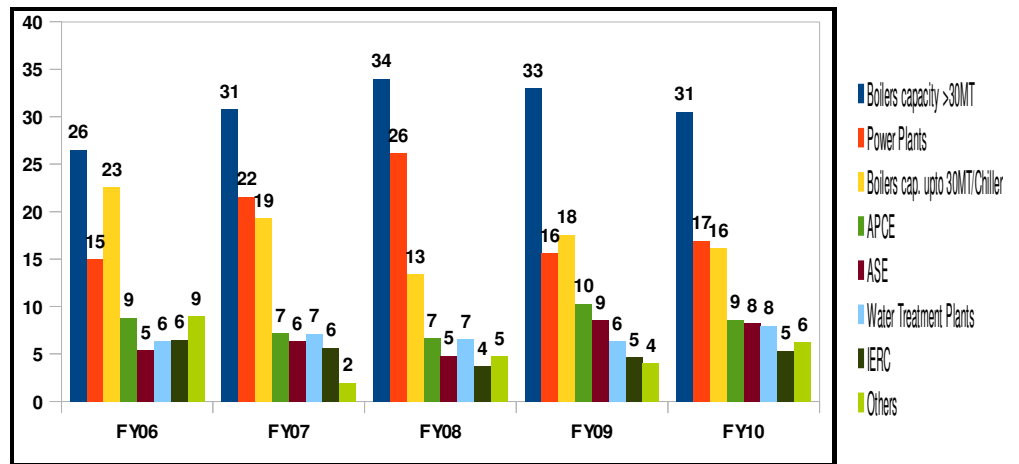
Thermax gets its revenue from two broad segments-energy and environment. Their contribution during FY10 was in the proportion of 76:24. In the last five years, the share of energy segment has been in the range of around 75% to 80%. So far bifurcation of domestic and export revenue is concerned, energy segment clocked revenue of Rs 2407 cr, of which 22.5% came from exports. During FY09, the exports contributed as high as 33%. On the environment side, exports contribution has remained in the range of 10% to 15% in the last three years. Sub-segment wise, boilers contributes highest in the top line followed by power. This has been the trend in the last five years. Despite of difficult time, revenues from operations clocked a three year CAGR of 12.85% to Rs 3434 cr in FY10.

#### Contribution of energy and environment segment to the top line



Source: Company data, BCCIR

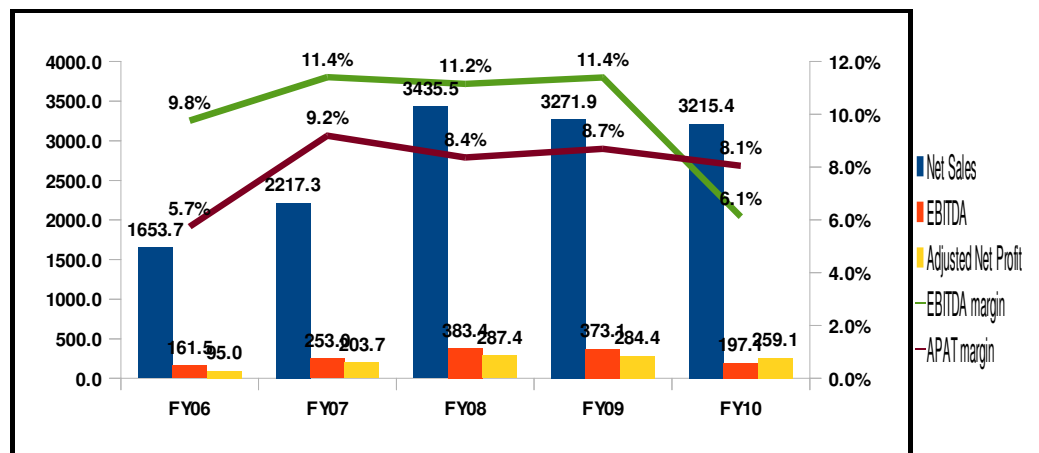
### Sales mix -- sub-segment wise



Note: APCE: Air Pollution Control Equipment; ASE: Accessories, Spares, Erections; IERC: Ion Exchange Resins & Chemicals. Source: Company data, BCCIR

### EBITDA and EBITDA margin

Growth in the last two years in the top line remained subdued and so in the EBITDA. EBITDA declined by 2% and 47% during the last two years, respectively. In FY10, margins contracted substantially to 6.1% due to a mix of reasons such as subdued top line growth, increase in salaries & wages and miscellaneous expenditure. However, for the 9MFY11, EBITDA margin improved to around 10% on standalone basis.



Source: Company data, BCCIR

### APAT and APAT margin

During FY09 and FY10, APAT declined by around 1% and 9% on YoY basis. In terms of PAT there has been significant decline, however, due to extraordinary expense (miscellaneous) of around Rs 115 cr, the decline in APAT was less. This is the reason that APAT margins stood at 8.1% much above EBITDA margin of 6.1% in FY10. PAT margin was around 4.4%. For the nine months ending December 2010, APAT and APAT margin stood at Rs 255.92 cr and 8.41%.

### **Other financials and profitability ratios**

Balance sheet has negligible amount of debt at Rs 7.96 cr given its net worth of Rs 1078.21 cr for FY10. Its debt to equity ratio comes out to be merely 0.01 for FY10. Cash on the balance sheet stood at Rs 650 cr as on end of December 2010. Order booking was impacted by slowdown in economy. Consequently, this impacted its revenues and profitability numbers during previous years. While during the last three year its ROCE and ROE has been on declining trend, return ratios are well above 39% and 24%, respectively.

So far its valuation is concerned, currently it is trading at a price to earning ratio of 28.74 The price to book value ratio stands at 6.64. Given the growth potential and access to latest technologies, we think Thermax is well positioned to encash the improvement in industrial capex. **We give a 'Buy' recommendation on the stock with a target of Rs 750 and investment horizon of 12 months.**

### **Company profile**

Thermax Limited (Thermax), a Rs 3,295 cr company by sales, is an engineering solution provider. It is one of the largest manufacturer of industrial boilers. The overall business can broadly be categorized into energy and environment. The energy segment is comprised of boiler & heater, power and cooling & heating and contributed 75.6% of the total income in FY10. Environment business, comprising of air pollution control, chemicals and water & waste water solution, accounted for remaining 24.4% of the revenue.

So far bifurcation of domestic and export revenue is concerned, energy segment clocked revenue of Rs 2407 cr, of which 22.5% came from exports. During FY09, the exports contributed as high as 33%. On the environment side, exports contribution has remained in the range of 10% to 15% in the last three years. In FY10, export contributed 14.8% or Rs 115 cr to the overall revenue from the environment segment. It is headquartered in Pune and operates through 19 international offices and four manufacturing facilities. Of the four manufacturing facilities, three are located in India and one in China. It markets its products in around 75 countries across Asia Pacific, Africa and the Middle East, CIS countries, Europe, USA and South America.

## Subsidiaries & joint ventures

Subsidiaries	Holding	Description
<b>Domestic subsidiaries</b>		
Thermax Sustainable Energy Solutions Limited	100%	It is into the business related to clean development mechanism (CDM).
Thermax Engineering Construction Co. Ltd	100%	TECC undertakes and executes engineering construction projects mainly for the boiler and heater (B&H) business.
Thermax Instrumentation Limited	100%	It focuses on installation and commissioning of power and co-generation plants including civil construction.
Thermax Onsite Energy Solutions Limited*	100%	The company was incorporated in September 2009 and focuses on the area of green energy from biomass and other alternate sources. It plans to develop utility delivery business to customer on unit-consumption basis. For this, the company installs its own equipment and peripherals at customer site, operates and maintains these, and organises required inputs like fuel, manpower and consumables at its own cost.
Thermax SPX Energy Technologies Limited*	51%	A JV with SPX Netherlands BV, a wholly-owned subsidiary of SPX Corporation, USA, power plant equipment and service provider. The JV incorporated in October 6, 2009. The JV will bring technology for power projects above 300MW .
<b>International subsidiaries</b>		
Thermax International Limited	100%	This is a parent to the step down subsidiary, Thermax Inc., USA.
Thermax Europe Limited	100%	General business
Thermax Inc.	100%	It acts as the front end value chain for Thermax's cooling and chemical business in the USA.
Thermax do Brasil-Energia e Equipamentos Ltda.	100%	During FY10, it earned an income of BRL 0.12 million (USD 0.07 million) and a profit after tax of BRL 0.04 million (USD 0.02 million).
Thermax (Zhejiang) Cooling & Heating Engineering Co. Ltd.	100%	It started operations in September 2008. During FY10, it expanded its operations in China with the opening of sales offices in 10 regions.

Source: Company



## Milestones

Year	Event
1966	Wanson India starts operations in Pune, manufacturing small coil-type packaged boilers (Vaporax), in collaboration with Wanson, Belgium. It posted a turnover of Rs 20 lakhs.
1973	Wanson receives its first export order for 10 paint booths to the former USSR. Multitherm, India's first packaged water tube boiler for Indian coal, is developed by Wanson R & D.
1975	Thermax gets into the water treatment business, to complement its boiler business.
1976	Thermax acquires Tulsi Fine Chemicals, which later became the chemical division of it
1979	In a synergistic move, Thermax starts the Enviro division for Air Pollution Control equipment
1980	Wanson India becomes Thermax Pvt Ltd.
1987	Thermax introduces vapour absorption machines in collaboration with Sanyo, Japan
1989	The company forms the joint venture – Thermax Babcock & Wilcox Ltd
1995	On February 15, 1995 Thermax goes public with an issue (IPO) of 60,88,700 equity shares
1996	Anu Aga is appointed as Executive Chairperson. Thermax bags the single largest contract of Rs 136 cr for captive power, water treatment and absorption cooling from Arvind Mills
2000	It acquires boiler company, M E Engineering Ltd, in UK.
2001	Thermax starts subsidiary company, Thermax Inc, in the US.
2003	Shree Cement Project completed in a record time of 17 months. Thermax wins Performance bonus from the customer.
2004	Thermax buys out Babcock & Wilcox stake in Joint venture, opens office in China.
2005	Thermax launches 14 new products and applications during the year. It wins a performance bonus cheque of Rs 1 cr from Madras Cement for fast completion of its captive power plant.
2006	Incorporates wholly owned subsidiary in China (Thermax Zhajiang).
2007	Thermax inks a technical know-how transfer and license agreement with Balcke-Durr, Germany for dry and wet electrostatic precipitators (ESPs), air pollution control equipment for power, industrial and utility segments upto 300 MW
2008	It signs a technical transfer license agreement with US-based Babcock & Wilcox Power Gen. Group to engineer, manufacture and sell sub critical B&W radiant utility boilers in India
2009	Thermax Onsite Energy Solutions Limited was incorporated to focus on the area of green energy from biomass and other alternate sources. Thermax SPX Energy Technologies Limited was formed to bring in technology for power projects above 300MW .
2010	Thermax acquires Danstoker, headquartered in Herning, Denmark and is a respected brand in renewable energy with over 1200 installations in Europe.

Source: Company

## Financial tables

Quarterly results Particulars	(Rs Cr)				
	Q3FY11	Q3FY10	Q2FY11	YoY growth (%)	QoQ growth (%)
Net Sales	1241.17	748.25	1091.62	65.88	13.7
Other Income	11.68	7.36	13.33	58.7	-12.38
Total Income	1252.85	755.61	1104.95	65.81	13.39
Total Expenditure	1094.76	658.86	963.05	66.16	13.68
Raw material cost	818.83	440.7	718.55	85.8	13.96
Employee cost	97.47	71.99	98.96	35.39	-1.51
Others	178.46	146.17	145.54	22.09	22.62
EBITDA	146.41	89.39	128.57	63.79	13.88
EBITDAM (%)	11.8	11.95	11.78	-1.26	0.15
Depreciation	10.55	10.39	10.5	1.54	0.48
EBIT	135.86	79	118.07	71.97	15.07
EBITM (%)	10.95	10.56	10.82	3.68	1.2
Interest	0.2	0.6	0.45	-66.67	-55.56
PBT	147.34	85.76	130.95	71.81	12.52
Tax	47.12	29.25	41.42	61.09	13.76
PAT	100.22	56.51	89.53	77.35	11.94

Source: BCCIR, Company data

Nine month results Particulars	(Rs Cr)		
	9MFY11	9MFY10	Growth (%)
Net Sales	3111.9	1969.31	58.02
Other Income	39	31.86	22.41
Total Income	3150.9	2001.17	57.45
Total Expenditure	2740.94	1731.77	58.27
Raw material cost	2022.57	1151.65	75.62
Employee cost	271.72	202.97	33.87
Others	446.65	377.15	18.43
EBITDA	370.96	237.54	56.17
EBITDAM (%)	11.92	12.06	-1.17
Depreciation	31.63	30.31	4.35
EBIT	339.33	207.23	63.75
EBITM (%)	10.9	10.52	3.62
Interest	1.22	1.2	1.67
PBT	377.11	237.89	58.52
Tax	121.19	80.77	50.04
PAT	255.92	157.12	62.88
APAT	255.92	157.12	62.88

Source: BCCIR, Company data

Annual Numbers Particulars	(Rs Cr)				3Yr CAGR
	FY10	FY09	FY08	FY07	
Equity Paid Up	23.83	23.83	23.83	23.83	
Networth	1078.21	991.32	759.51	589.94	
Debt	7.96	4.08	0	2.17	
Cash & bank balance	670.21	373.48	58.02	97.24	
Net working capital	191.19	359.3	-139.68	-154.27	
Net Sales	3215.39	3271.86	3435.52	2217.3	13.19%
Other Income	145.59	97.92	94.74	72.96	
Total Income	3360.98	3369.78	3530.26	2290.26	13.64%
Total Expenditure	3018.27	2898.74	3052.08	1964.35	15.39%
Raw material cost	2020.3	2077.63	2222.23	1455.95	11.54%
Employee cost	329.95	288.23	267.16	213.89	15.55%
Other expenditure	668.02	532.88	562.69	294.51	31.39%
EBITDA	197.12	373.12	383.44	252.95	-7.98%
EBITDAM (%)	6.13	11.4	11.16	11.41	
Depreciation	44.2	35.14	23.2	19.5	
EBIT	152.92	337.98	360.24	233.45	-13.15%
EBITM (%)	4.76	10.33	10.49	10.53	
Interest	12.98	11.23	7.16	8.06	
PBT	285.53	424.67	447.82	298.35	-1.45%
Tax	141.63	135.73	157.1	104.63	
PAT	143.9	288.94	290.72	193.72	-9.43%
APAT	259.07	284.44	287.42	203.68	8.35%
APATM (%)	8.06	8.69	8.37	9.19	
CEPS (Rs)	14.96	26.35	24.99	16.97	-4.12%
EPS (Rs)	11.25	23.4	23.04	15.33	-9.80%
Dividend (%)	250	250	400	300	
Payout (%)	44.46	21.37	34.73	39.13	
Cash Flow From Operating Activities	631.81	156.99	140.75	352.68	

Source: BCCIR, Company data

Key Ratios				
Financial ratios	FY10	FY09	FY08	FY07
Debt-Equity	0.01	0	0	0.01
Debtors Ratio	4.81	6.13	7.65	7.23
Interest Cover Ratio	31.84	38.82	63.54	38.02
EBIDTM (%)	6.13	11.4	11.16	11.41
EBITM (%)	4.76	10.33	10.49	10.53
APATM (%)	8.06	8.69	8.37	9.19
ROCE (%)	39.53	49.79	67.53	57.92
RONW (%)	24.88	33.01	43.09	36.92

#### Valuation ratios

EV/EBITDA

Price to earning

Price to book value

Source: BCCIR, Company data

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