Asian Paints ASPN.NS APNT IN

GENERAL CONSUMER

NOMURA
EQUITY RESEARCH

Q2 impacted by one-offs

Q2 impacted by one-offs; Q3 should see strong reversal; reiterate Buy

October 24, 2011

Rating Remains	**Buy**
Target price Reduced from 3650	INR 3500
Closing price October 21, 2011	INR 3016
Potential upside	+16%

Action: Soft Q2 impacted by one-offs; reiterate Buy on unchanged long-term fundamentals

While Q2 numbers were much below our and consensus expectations, this was impacted by several one-off factors, which we believe will reverse in Q3. Timing issues around the festive season demand and extended monsoons are not operational factors, and we see a strong rebound in Q3FY12. Management remains confident in longer-term demand drivers, and we expect company to deliver robust FY12 earnings growth.

Catalysts: Reversal of technical factors in Q3

We see Q3 as a short-term catalyst for the stock. Additional pricing, pent-up festive season demand, stable to marginally lower input prices and lower A&P spending should all help the company deliver robust y-y earnings growth. We believe demand drivers continue to be robust and that Street caution on continuing Q2 trends is too pessimistic.

Valuation: Valuation undemanding vs. the sector

Asian Paints trades at 22.9x FY13F EPS vs. the sector average of 24.6x. We believe given its strong earnings growth trajectory, track record of the management, market leadership and pricing power, the company should trade at a premium to the sector. Our valuation multiple of 25x one-year forward earnings values the company at a 4% premium to the consumer sector average. We continue to believe Asian Paints is one of the most attractive long term stories in consumer and reiterate our Buy recommendation at current levels. We would use the softness post Q2 to build positions.

31 Mar	FY11		FY12F		FY13F		FY14F
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	77,063	96,317	96,317	113,063	113,063	132,869	132,869
Reported net profit (mn)	8,433	10,505	10,088	13,143	12,624	15,611	15,192
Normalised net profit (mn)	8,386	10,505	10,088	13,143	12,624	15,611	15,192
Normalised EPS	87.43	109.52	105.17	137.02	131.61	162.75	158.38
Norm. EPS growth (%)	10.9	25.3	20.3	25.1	25.1	18.8	20.3
Norm. P/E (x)	34.5	N/A	28.7	N/A	22.9	N/A	19.0
EV/EBITDA (x)	20.9	17.0	16.9	13.9	13.9	11.6	11.5
Price/book (x)	12.9	N/A	10.5	N/A	8.6	N/A	7.0
Dividend yield (%)	1.2	N/A	1.7	N/A	2.2	N/A	2.6
ROE (%)	42.5	42.0	40.5	42.4	41.2	40.8	40.3
Net debt/equity (%)	4.5	3.9	5.4	net cash	0.3	net cash	net cash

Source: Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

The Indian paints industry is likely to grow 18-20% in volume terms over the medium term. We expect Asian Paints, as market leader, to be one of the key beneficieries of this growth.

Nomura vs consensus

Consensus is overly concerned about the slowdown in volume growth as a result of large price increases. We are 5% ahead of consensus on FY13 earnings and believe volume growth will be solid.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

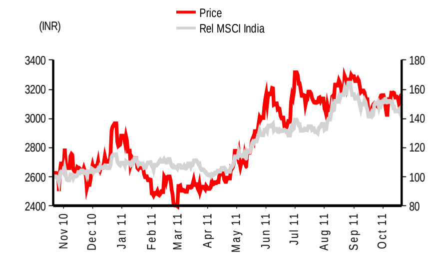
Key data on Asian Paints

Income statement (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**66,809**	**77,063**	**96,317**	**113,063**	**132,869**
Cost of goods sold	-38,999	-46,460	-59,083	-69,016	-81,106
Gross profit	**27,811**	**30,603**	**37,234**	**44,047**	**51,763**
SG&A	-11,387	-13,285	-16,220	-19,024	-21,995
Employee share expense	-4,363	-4,540	-5,359	-6,247	-7,306
Operating profit	**12,061**	**12,779**	**15,656**	**18,776**	**22,462**
EBITDA	**12,896**	**13,910**	**17,208**	**20,815**	**24,957**
Depreciation	-836	-1,131	-1,552	-2,040	-2,495
Amortisation	0	0	0	0	0
EBIT	12,061	12,779	15,656	18,776	22,462
Net interest expense	-285	-222	-247	-211	-121
Associates & JCEs					
Other income					
Earnings before tax	**11,776**	**12,556**	**15,409**	**18,565**	**22,341**
Income tax	-3,731	-3,789	-4,931	-5,941	-7,149
Net profit after tax	**8,045**	**8,767**	**10,478**	**12,624**	**15,192**
Minority interests	-483	-381	-390	0	0
Other items					
Preferred dividends	0	0	0	0	0
Normalised NPAT	**7,562**	**8,386**	**10,088**	**12,624**	**15,192**
Extraordinary items	794	46	0	0	0
Reported NPAT	**8,356**	**8,433**	**10,088**	**12,624**	**15,192**
Dividends	-3,023	-3,571	-4,994	-6,249	-7,520
Transfer to reserves	**5,333**	**4,862**	**5,095**	**6,375**	**7,672**
Valuation and ratio analysis					
FD normalised P/E (x)	38.2	34.5	28.7	22.9	19.0
FD normalised P/E at price target (x)	46.6	42.0	34.9	27.9	23.2
Reported P/E (x)	34.6	34.3	28.7	22.9	19.0
Dividend yield (%)	1.0	1.2	1.7	2.2	2.6
Price/cashflow (x)	24.0	35.2	23.0	19.8	16.6
Price/book (x)	16.7	12.9	10.5	8.6	7.0
EV/EBITDA (x)	22.5	20.9	16.9	13.9	11.5
EV/EBIT (x)	24.1	22.7	18.6	15.4	12.7
Gross margin (%)	41.6	39.7	38.7	39.0	39.0
EBITDA margin (%)	19.3	18.1	17.9	18.4	18.8
EBIT margin (%)	18.1	16.6	16.3	16.6	16.9
Net margin (%)	12.5	10.9	10.5	11.2	11.4
Effective tax rate (%)	31.7	30.2	32.0	32.0	32.0
Dividend payout (%)	36.2	42.3	49.5	49.5	49.5
Capex to sales (%)	5.3	1.6	8.4	6.2	5.3
Capex to depreciation (x)	4.2	1.1	5.2	3.4	2.8
ROE (%)	56.9	42.5	40.5	41.2	40.3
ROA (pretax %)	38.8	31.7	32.0	32.5	33.6
Growth (%)					
Revenue	22.3	15.3	25.0	17.4	17.5
EBITDA	80.3	7.9	23.7	21.0	19.9
EBIT	88.2	6.0	22.5	19.9	19.6
Normalised EPS	91.3	10.9	20.3	25.1	20.3
Normalised FDEPS	91.3	10.9	20.3	25.1	20.3
Per share					
Reported EPS (INR)	87.12	87.91	105.17	131.61	158.38
Norm EPS (INR)	78.84	87.43	105.17	131.61	158.38
Fully diluted norm EPS (INR)	78.84	87.43	105.17	131.61	158.38
Book value per share (INR)	180.30	233.05	286.16	352.62	432.61
DPS (INR)	31.52	37.22	52.06	65.15	78.40

Source: Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	-2.5	-3.1	14.4
Absolute (USD)	-5.9	-13.8	1.3
Relative to index	-1.4	5.2	33.1
Market cap (USDmn)	5,777.0		
Estimated free float (%)	50.0		
52-week range (INR)	3387/2364		
3-mth avg daily turnover (USDmn)	4.78		
Major shareholders (%)			
LIC of India	6.8		
Genesis Indian Investment Company	3.6		

Source: Thomson Reuters, Nomura research

Notes

Robust medium-term revenue and profit growth

Cashflow (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	12,896	13,910	17,208	20,815	24,957
Change in working capital	3,530	-1,658	559	-32	-292
Other operating cashflow	-4,363	-4,024	-5,178	-6,152	-7,270
Cashflow from operations	**12,064**	**8,228**	**12,589**	**14,631**	**17,395**
Capital expenditure	-3,541	-1,235	-8,067	-7,000	-7,000
Free cashflow	**8,523**	**6,993**	**4,522**	**7,631**	**10,395**
Reduction in investments	-5,457	-2,978	0	0	0
Net acquisitions	0	0	0	0	0
Reduction in other LT assets	0	0	0	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	0	0	0	0	0
Cashflow after investing acts	**3,066**	**4,015**	**4,522**	**7,631**	**10,395**
Cash dividends	-3,023	-3,571	-4,994	-6,249	-7,520
Equity issue	0	0	0	0	0
Debt issue	-794	55	500	-1,000	-1,000
Convertible debt issue	0	0	0	0	0
Others	-294	-227	0	0	0
Cashflow from financial acts	**-4,111**	**-3,743**	**-4,494**	**-7,249**	**-8,520**
Net cashflow	**-1,045**	**272**	**29**	**382**	**1,875**
Beginning cash	2,104	1,058	1,330	1,359	1,742
Ending cash	1,058	1,330	1,359	1,742	3,617
Ending net debt	1,234	1,017	1,488	105	-2,769

Source: Nomura estimates

Notes

Strong free cash flow generation despite significant capex

Balance sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	1,058	1,330	1,359	1,742	3,616
Marketable securities	0	0	0	0	0
Accounts receivable	5,425	5,855	7,155	8,399	9,871
Inventories	9,559	13,054	16,028	18,142	21,320
Other current assets	2,395	2,950	1,431	1,680	1,974
Total current assets	**18,437**	**23,190**	**25,973**	**29,963**	**36,781**
LT investments	6,241	9,220	9,220	9,220	9,220
Fixed assets	12,801	13,160	19,675	24,635	29,141
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	0	0	0	0	0
Total assets	**37,479**	**45,569**	**54,867**	**63,818**	**75,142**
Short-term debt	0	0	0	0	0
Accounts payable	13,797	16,404	18,603	22,174	26,453
Other current liabilities	3,150	3,365	4,480	4,484	4,857
Total current liabilities	**16,947**	**19,769**	**23,083**	**26,658**	**31,310**
Long-term debt	2,292	2,347	2,847	1,847	847
Convertible debt	0	0	0	0	0
Other LT liabilities	0	0	0	0	0
Total liabilities	**19,239**	**22,116**	**25,930**	**28,505**	**32,157**
Minority interest	945	1,099	1,489	1,489	1,489
Preferred stock	0	0	0	0	0
Common stock	959	959	959	959	959
Retained earnings					
Proposed dividends					
Other equity and reserves	16,336	21,395	26,489	32,865	40,536
Total shareholders' equity	**17,295**	**22,354**	**27,449**	**33,824**	**41,496**
Total equity & liabilities	**37,479**	**45,569**	**54,867**	**63,818**	**75,142**
Liquidity (x)					
Current ratio	1.09	1.17	1.13	1.12	1.17
Interest cover	42.4	57.5	63.5	88.9	185.3
Leverage					
Net debt/EBITDA (x)	0.10	0.07	0.09	0.01	net cash
Net debt/equity (%)	7.1	4.5	5.4	0.3	net cash
Activity (days)					
Days receivable	30.4	26.7	24.7	25.1	25.1
Days inventory	80.7	88.8	90.1	90.4	88.8
Days payable	112.0	118.6	108.4	107.8	109.4
Cash cycle	-0.9	-3.1	6.4	7.6	4.5

Source: Nomura estimates

Notes

Balance sheet supports stronger dividend payout

- Consolidated revenues increased 24%, led largely by strong pricing action in the domestic business.
- Domestic business registered revenue growth of 26% y-y on the back of single-digit volume growth (our estimate). We believe that there has been some negative impact on volumes because of rain and expect things to improve from these levels.
- Growth remains soft in the international region given the situation in Egypt and Middle East are yet to witness any material improvement.
- Consolidated EBITDA margins stood at 14.3% (16.7% was our estimate), registering a decline of 400bps y-y. Gross margins declined 370bps y-y. Overhead costs increased significantly on a y-y basis, which put further pressure on EBITDA margins.
- PAT came in 14% lower than our and consensus estimates on the back of higher-than-expected input costs and overhead expenses

Fig. 1: Q2FY12 result highlights

	Quarter ended				
(Rs. mn)	Sep-11	Sep-10	YoY % Chg	Jun-11	QoQ % Chg
Net Sales	**22,508**	**18,108**	**24.3**	**22,604**	**(0.4)**
EBIDTA	3,229	3,315	(2.6)	3,922	(17.7)
Other income	292	249	17.4	305	(4.2)
PBIDT	**3,521**	**3,564**	**(1.2)**	**4,227**	**(16.7)**
Depreciation	300	284	5.5	291	3.0
Interest	88	46	93.6	65	35.6
PBT	**3,133**	**3,234**	**(3.1)**	**3,871**	**(19.1)**
Tax	955	984	(3.0)	1,155	(17.3)
Minority Interest	91	103	(11.4)	79	15.0
Adjusted PAT	**2,087**	**2,147**	**(2.8)**	**2,637**	**(20.8)**
Extra ordinary income/ (exp.)	0	0	N.A	0	N.A
Reported PAT	**2,087**	**2,147**	**(2.8)**	**2,637**	**(20.8)**
No. of shares (mn)	**96**	**96**		**96**	
EPS (INR)	21.8	22.4		27.5	
EBIDTA margins (%)	14.3	18.3		17.3	
PBIDT margins (%)	15.6	19.7		18.7	

Source: Company, Nomura research

Feedback from management meeting

The meeting with management threw up some interesting data points, both about the quarter just gone by and also about longer-term trends. While management remained confident in the longer-term trends, there were some concerns that could keep profitability relatively muted in the short term.

Macro risks continue to dominate mind share

The company highlighted that the current macroeconomic environment continues to be stable, with demand continuing to be robust. However, high inflation and a potential slowdown in GDP forecasts provide a bit of caution in the background heading into H2FY12.

Depreciation of the Indian rupee has had an impact

The sharp and sudden depreciation of the rupee vs. the US dollar had a negative impact on the P&L during the quarter to the tune of INR150mn. Adjusted for this, PAT came in only 5% below our estimates

Longer-term demand conditions still robust

Management reiterated that longer-term demand conditions remain robust. They expect value growth closer to 20% in the medium term, which is what company has been able to deliver over a longer period of time. Within this, the mix of volume and price impact can vary depending on how input prices and competitive intensity is in each of the years. In FY12 so far, volume growth has been stable at 10%, we estimate, while price increases have helped company deliver 20%+ value growth. Management still sees the decorative paints segment penetration as small, and the opportunity to grow over the medium term remains robust.

Price increases post Diwali

APNT has taken three price increases so far in FY12 of 4.36%, 2.45% and 1.33% in May, June and July. These have aggregated to around 8% for FY12 and, together with price increases of close to 15% in FY11, should ensure that value growth in the current year should be robust. The company typically does take a round of price increases pre-Diwali, but this year has not done so because of the slack demand due to extended monsoons and the timing of Diwali. However, they will look at another round of price increases after Diwali in Q3FY12.

Input cost rise still relevant… but now manageable

On the input cost front, company has seen input cost index remain largely stable on a q-q basis. The raw material price index has moved from 114 in Q1FY12 to 117 this quarter. With crude prices stabilising, management believes a large increase in raw material prices from these levels is unlikely. On TiO2, supply has eased but pricing has seen no softness yet. Longer-term global companies are increasing capacity, which should translate into lowering of the demand-supply mismatch.

International business is a soft spot

International business continues to suffer owing to several disruptions due to geopolitical concerns. This has had an adverse impact on APNT's volume and profit performance across most international markets. As and when the Middle East market comes back to normality, we believe there should be a pickup in momentum. However, it is difficult to predict the timing around that improvement. We are already factoring in a soft performance in FY12 in the international business.

Capex plans on track

The company's expansion plans remain on track with construction at the new Khandala plant progressing as planned. Total capex this year will be INR9bn, of which INR2bn will be for maintenance. The company expects total capex of INR10bn for the new plant in Khandala, which it expects to complete by end-CY12.

Reasons for softness in Q2FY12

The company highlighted four key reasons for softness in Q2FY12 numbers. These factors were all not predictable, and hence we expect Q3FY12 to show a return to more normalised trading.

- Extended monsoon season: Monsoons in various parts of the country, which typically come to an end by mid September, have continued well into October. This has been one of the key reasons for demand being slack, as consumers will want to wait for the monsoon season to end before looking at re-painting options.
- Timing of Diwali: The timing of Diwali is also a big reason for softness in Q2 numbers. Consumers typically get their houses repainted just before Diwali, but this year due to Diwali being earlier and monsoons extending later, there has been some postponement of this demand. The company expects Q3 to compensate for the pre-Diwali slackness and for demand to have been more of a timing issue than any underlying weakness in demand.
- A&P is also seasonal: The company increases its A&P spending ahead of Diwali, which was done this year as planned. This is reflected in the higher overhead this quarter, although sales growth did not come through as planned. This led to a further hit on margins during Q2, but this should also reverse in Q3, when much of the spending related to festive season will have already been done.
- Rupee depreciation has had an impact: The depreciation of the rupee vs. the US dollar has also had an impact to the tune of INR150mn in the current quarter. The company imports 30% of its RM, which means a higher outgo in INR terms as the rupee depreciated towards the end of September.
- Andhra Pradesh market soft: The company mentioned that growth has been even across all markets, except in Andhra Pradesh, where market disruptions due to geopolitical reasons impacted demand. While there is no certainty on when this will be resolved, the company is hoping that demand conditions return to normal in early CY12. The pent-up demand in the system could ensure that the market grows stronger than the rest of the country starting in CY12, in our view.

Changes to our estimates

We have taken into account the factors which impacted performance in Q2FY12. Some of these will reverse in Q3 and some of the factors are purely timing-related ones. We believe the company continues to be largely on track to deliver another year of robust earnings growth.

However, we have made some changes to our estimates to account for the miss in Q2FY12, and these are related mainly to how the raw material index has tracked over the last quarter. We now believe the raw material price pressure will be slightly more than we had previously estimated. This is on account of input prices continuing to remain firm, which we had anticipated would have shown some signs of softening into H2FY12.

We are not making any significant changes to our estimates and believe company still has the ability to take further price increases without impacting demand. However, we are building some more caution into our numbers now.

As a result of these changes, our numbers are cut by 5% for FY12F and FY13F. We are now building in a 30bps margin decline in FY12F on a y-y basis, as against our earlier expectation of a modest uptick in margins in FY12F. A part of this is also on account of higher A&P spending, which will result in SG&A expenses being higher. The rupee depreciation also will impact the numbers if rupee stays at the current level as raw material procurement cost will rise in rupee terms.

What we would also like to highlight here is that Q3 could well surprise us and the Street on the upside; however, we are not building that into our numbers at this stage. For Q3, we expect revenue growth to continue to remain robust at 24%, while margins will improve on a y-y basis, on account of reversal of the one off items in Q2 and a lower comparable base.

Target price cut marginally to reflect the cut in estimates

In line with the cut in our estimates, we are also lowering our target price to INR3,500 from INR3,650 earlier. This is purely to reflect the cut in earnings estimates, while we continue to keep our valuation methodology constant. We value Asian Paints at 25x one-year forward EPS, which is a 4% premium to other consumer companies. We believe this is justified on account for the higher growth profit at Asian Paints, and the dominant position in the market place.

Maintain Buy – long-term fundamentals remain robust

Asian Paints remains one of the most attractive stories to own in the consumer sector in the long term, in our view. While Q2 softness was largely on account of one-off factors and timing-related issues, we believe the company will return to showing robust growth in Q3. We would use the correction on the back of Q2FY12 numbers as an opportunity to buy into what we believe to be one the best-managed companies in the sector.

Appendix A-1

Analyst Certification

I, Manish Jain, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

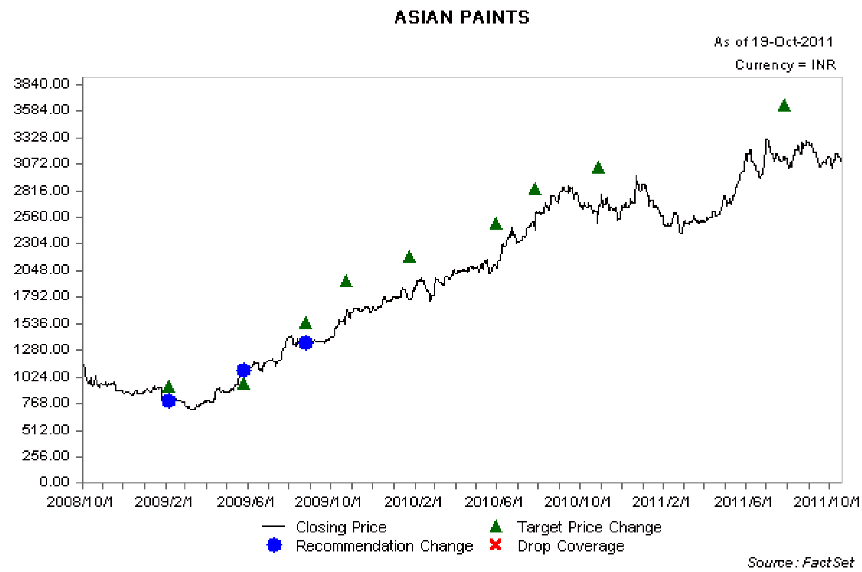
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Asian Paints	APNT IN	INR 3016	21-Oct-2011	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Asian Paints	Reduce	25-Aug-2009

Asian Paints (APNT IN) **INR 3016 (21-Oct-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
28-Jul-2011		3650.00	3119.10
28-Oct-2010		3050.00	2651.70
28-Jul-2010		2840.00	2584.75
01-Jun-2010		2500.00	2071.35
25-Jan-2010		2179.00	1774.90
23-Oct-2009		1947.00	1676.15
25-Aug-2009		1541.00	1358.50
25-Aug-2009	Buy		1358.50
27-May-2009		965.00	1086.40
27-May-2009	Reduce		1086.40
06-Feb-2009		935.00	791.35
06-Feb-2009	Buy		791.35

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price is INR3500. We value Asian Paints at 25x one-year forward earnings. This is a 4% premium vs. other consumer stocks.

Risks that may impede the achievement of the target price A sharp increase in input prices could mean a potential risk to our earnings estimates. However, we consider the company to be well prepared to deal with an increase in input prices by way of price hikes in the near term.

Important Disclosures

Online availability of research and additional conflict-of-interest disclosures

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STOCKS

A rating of '**Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
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SECTORS

A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
A '**Buy'** recommendation indicates that potential upside is 15% or more. A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%. A '**Reduce'** recommendation indicates that potential downside is 5% or more. A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A '**Strong buy'** recommendation indicates that upside is more than 20%. A '**Buy'** recommendation indicates that upside is between 10% and 20%. A '**Neutral'** recommendation indicates that upside or downside is less than 10%. A '**Reduce'** recommendation indicates that downside is between 10% and 20%. A '**Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation. A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation. A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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