



Globus Spirits Limited Initiating Coverage

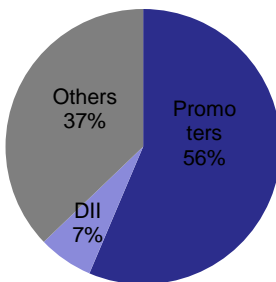
MARKET DATA

NSE TICKER	GLOBUSSPR
Networth (₹Cr)	355.1
P/BV Ratio (FY16E) (x)	0.5x
EPS (FY16E) (₹)	9.6
Market Price (₹)	60.1
P/E Ratio (FY16E) (x)	6.3
52 Week High (01/12/2014) (₹)	84
52 Week Low (30/03/2015) (₹)	39
Market Capitalisation (₹Cr)	173

AVERAGE MONTHLY VOLUME ('000)

BSE	26.4
NSE	95.0

SHARE HOLDING PATTERN



Return	3M	6M	12M
GSL	-9.2%	17.1%	-18.3%
Sensex	-4%	-7.8%	1.6%

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GSL is engaged in the business of manufacture, marketing and selling of Alcohol. The company has a well-established position in the domestic IMIL segment in north India. Also, it is the third largest producer of alcohol amongst the IMFL players.

Strong presence in North India; Expanding into Eastern States

Globus spirits has a market share of ~25% in Rajasthan, ~10% in Haryana & ~20% in Delhi in the IMIL segment. The volume in Haryana has stabilised after de-growth in FY14. Given the fixed pricing in northern Indian States, higher markets share leads to better profitability. Also, Bihar operations have started and sales in West Bengal are expected to begin by FY17. We expect ~25% CAGR in volumes across the markets in India including eastern states over the next two years.

Industry offers interesting growth opportunities

IMIL has a huge market in India constituting of both organised & unorganised market. Illicit drinking is rampant in the unorganised segment. Market estimates the size of unorganised at ~1.5-2x of the organised markets. Given the measures undertaken by State Governments to curb illicit liquor for both health reasons and tax collection purposes, will favour companies like GSL. Also, increasing quality of IMIL and price gap between entry level IMFL and premium IMIL may lead to consumers switching to IMIL brands. We expect volumes to grow at a CAGR of 12-14% over the next 5 years.

Manufacturing to support

GSL has distilleries in Rajasthan & Haryana with a combined capacity of 90 mn bulk litres wherein it caters to IMFL players-both alcohol and bottling services after captive consumption to manufacture IMIL products. Such contracts provide stability in revenue and profitability. Forward integration to DDGS from by-products in Q4FY15 has led to improvement in profitability. Also, company is setting up two distilleries in Bihar & West Bengal at a capex of Rs 240 crore. As both these States are deficit in Alcohol, the expansion is expected to boost the profitability of the segment.

Volatility in input prices, Regulations & project implementation are key risk

Due to price control, liquor companies are exposed to volatility in raw material. GSL has had lower return ratios as it is unable to pass the incremental costs. The input (grain & molasses) price & higher taxes have put a dent on the profitability. As the industry is heavily regulated, any adverse change in regulation can dent profitability. Timely implementation and scaling up of operations in Eastern India remains key monitorable for us.

Financial outlook & Valuation

We expect GSL's Net Sales and PAT to grow at a CAGR ~20.5% and ~75% respectively by FY17 on account of robust sales from new markets of Bihar & WB. Sale of value added products like DDGS will help in setting off the rising input costs & higher tax burden. PAT is expected to increase to Rs.43 crore in FY17.

Using P/E multiple method, we value GSL at Rs.77 per share by Mar'16. We have assigned P/E of 6x on FY18EPS and discounted by two years using the cost of equity of 18%.

Financial summary:

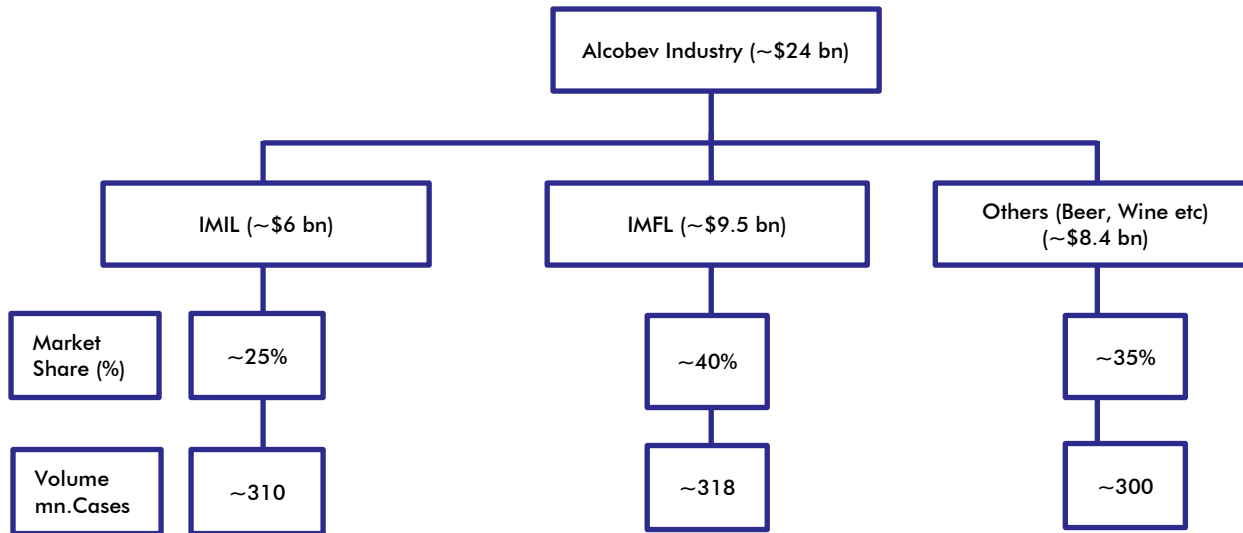
Rs. Cr	Net Sales	Growth(%)	EBITDA	EBITDA(%)	Recurring PAT*	EPS	P/E	ROE	ROCE
FY14	496	-1%	44.9	9.1%	17	1.8	133.2	4.9%	5.9%
FY15	586	18%	48.8	8.3%	14	4.9	32.0	4.0%	6.6%
FY16E	694	19%	73	10.5%	28	9.6	6.3	7.6%	9.6%
FY17E	850	22%	98	11.5%	38	13.0	4.6	9.7%	11.8%
FY18E	1012	19%	127	12.6%	52	18.0	3.3	12.2%	15.1%

*Recurring PAT & excludes the brand amortisation



Snapshot of Indian Alcobev Industry FY-15

Chart 1



Source: Industry, DSPL

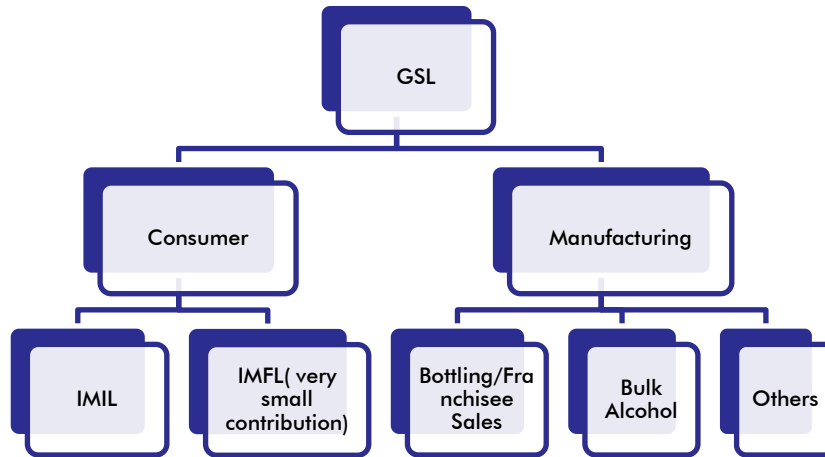
Comparison between IMIL and IMFL

Parameters\Segment	IMIL	IMFL
Consumer Target Market	Socio-economic D, comprising ~40% of population excluding below poverty line population	More Affluent, socioeconomic sections C & upwards
Taste Preference	Local fruit Flavor dominated market	North India - Whisky, East India - Rum, South India - Brandy & Rum
Point of Purchase	State Government Regulated vends	Standalone retail outlets, department stores
Alcohol Content	~30% on average. Usually made from Rectified Spirits (RS) in most of the states	42.8%. IMFL is made from ENA
Price Points	Rs.30 per nip (smallest size)	Starts at Rs.50-55 per nip (cheap brands)
Players	Largely Regional	Biggies like USL, Radico, Pernod Ricard, ABD etc.
Growth	Growing at 10-12% supported by shift from illicit drink to organized drink.	IMFL industry is growing at 6% CAGR with flat growth in the last two years

Source: Company Reports



GSL revenue source
Chart 2



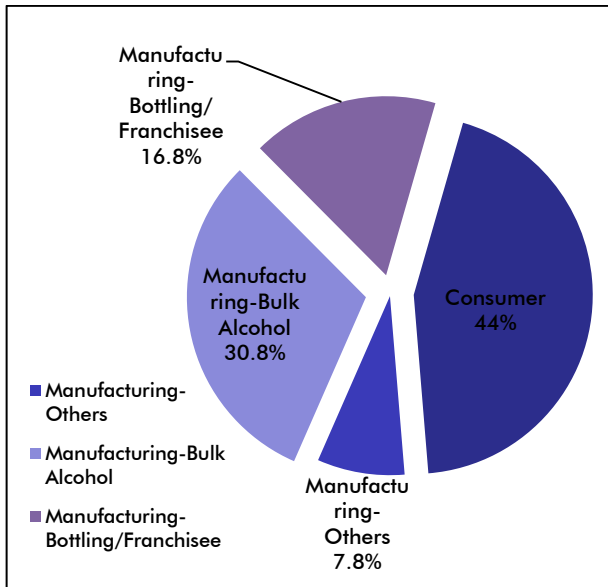
Source: Company Reports

GSL fairly diversified into Consumer & Manufacturing Business

GSL is engaged in the business of manufacture, marketing and selling of Alcohol. It owns three distilleries which are located in Haryana and Rajasthan with combined capacity of 90 mn litres. It also owns bottling plant with capacity of ~18 mn. cases p.a. The distilleries are used to service both consumer and manufacturing business.

Under the Consumer business, it markets and sells Country Liquor in the North Indian States. In manufacturing segment, it sells bulk alcohol and has bottling contracts which large IMFL players. The diversification has helped the company lower the concentration risk. In FY15, consumer and manufacturing segments have made revenue contribution of 44% and 56% respectively. Given the pressure on consumer business and expansion in the manufacturing business, the share of the latter has increased over the past 3 years.

Chart 3 – Revenue



Source: Company, DSPL

Consumer Business

Of the total revenues, GSL receives 44% from the consumer segment. Under the consumer segment, almost all the revenues (98%) come from the IMIL segment while rest comes from IMFL. The major markets for GSL are Rajasthan, Haryana & Delhi where it is amongst the top brands in the IMIL category.



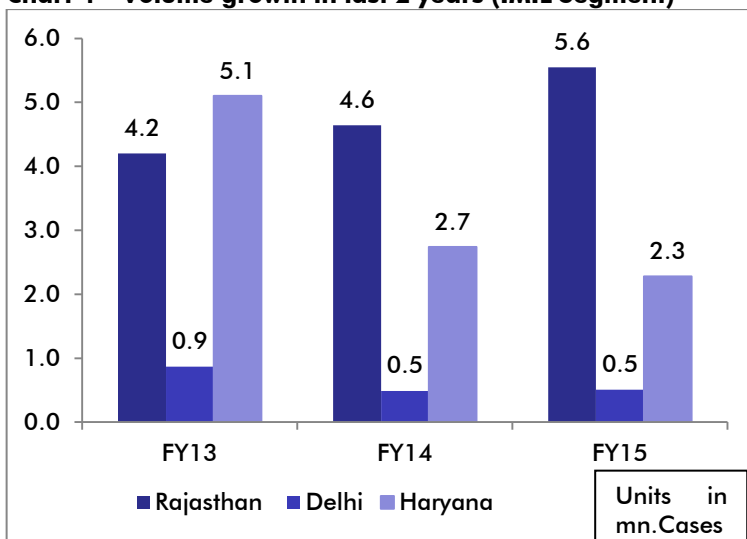
Key markets in IMIL Segment

Parameters	Rajasthan	Haryana	Delhi
Market Size	~21 mn. Cases	~23 mn. Cases	~7.5 mn cases
GSL Market Share	25%	10%	7%
GSL Products	Ghoomar & Heer Ranjha	Nimboo, Narangi & Goldee	Narangi & Kinnu
Competitor's Products	Punjab 6000 Extra Strong, Kesar Kasturi & Jagmohan	Malta & Sofia by Picaddily	Gulab & Shokeen by Queen Distilleries & Hulchal by Maurya Distilleries
Pricing and distribution	<p>1. A fixed market share up to 50% is reserved for sale by Rajasthan State entity Ganganagar Sugar Mills (GSM)</p> <p>2. Ex-distillery price and the retail price is fixed by the government</p>	<p>1. Ex-distillery price and the minimum retail price are fixed by the government.</p> <p>2. Volume</p> <p>3. At the distribution level, the market is relatively less regulated</p>	<p>1. Relatively smaller market & the operating environment is more difficult</p> <p>2. Flat growth for last two years</p> <p>3. Both quantity and prices are fixed by the government</p>
Others	<p>1. Huge Market with a market growth of 15-18% CAGR</p> <p>2. GSL is the largest private player.</p> <p>3. GSL has a distillery unit at Behror</p>	<p>1. Regulation to use ENA instead of RS as a raw material to manufacture CL.</p> <p>2. GSL has two distillery units at Samlakha & Hisar.</p> <p>3. GSL 2nd largest IMIL company in the state</p>	

Source: Company Reports

Volume Growth in IMIL Markets

Chart 4 – Volume growth in last 2 years (IMIL Segment)



Source: Industry, DSPL

From the above chart, we see that Rajasthan is a high growing market for GSL. Consumer business was mainly driven by strong & sustained revenue growth of 24% YoY in Rajasthan IMIL market. The Rajasthan IMIL market has witnessed at 16% CAGR over the last

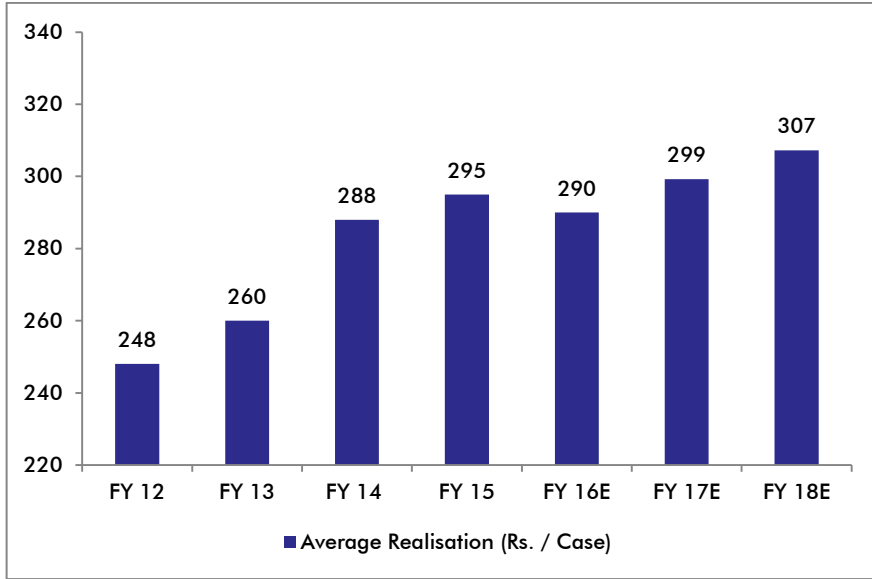


5-years. GSL has maintained its leadership in the state as the No.1 private player with a 25% market share. It is also hopeful of recovery in the Haryana market where GSL owns 10% market share and is the second largest private player.

Average Realisation in all IMIL markets

Chart 5-Average Realisation

GSL average realisation increased from Rs.248/case to Rs.295/case between FY12-15. From FY15, we expect the average realisation to improve & touch Rs.307/case due to higher sales contributions from Bihar & West Bengal markets by FY18. The average net realization in Rajasthan market is Rs.308/case.



Source: Company

Foray into newer markets for IMIL

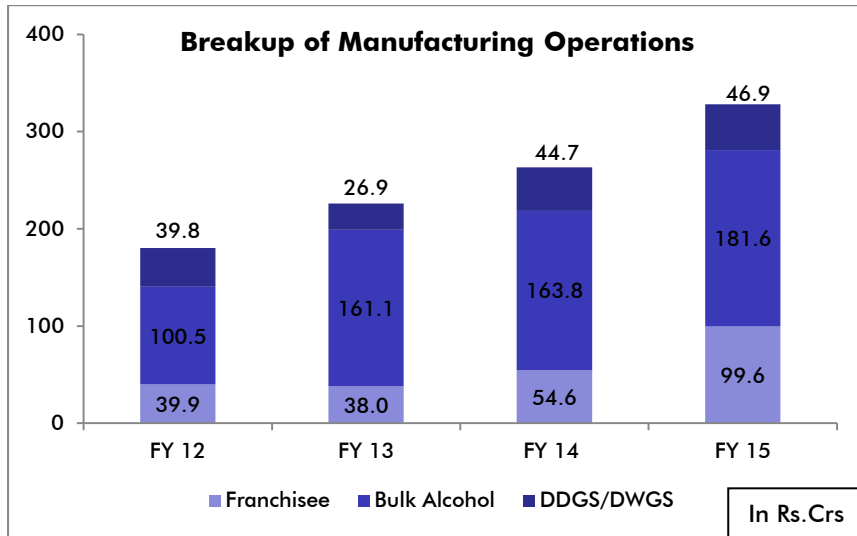
In order to further increase its footprint, GSL has identified Eastern States for expansion. States like Bihar and West Bengal have deficit in alcohol supply and therefore, offer good return from the investment. GSL has an exclusive 5-year tender for the Patna zone which is the largest market in Bihar, with sales of approximately 2.5 mn cases p.a. The state is one of the fastest growing markets for IMIL with 28% 5-year revenue CAGR and it is also one of the fastest growing in terms of GDP. Currently, GSL sells 1, 70,000-1, 75,000 cases per month which they expect to increase up to 1,85,000 cases per month. Average Realisation in Bihar is Rs.212/case.

Manufacturing Business has supported revenue growth

Globus Spirits produces and sells Bulk Alcohol and is also involved in bottling tie-ups. As such it provides end-to-end liquor manufacturing to IMFL companies like USL, Pernod, Jagjit etc. The business has grown at a CAGR of 22% over the last 3 years. The growth has been driven by higher sales to existing as well as new customers. The company is starting to export some part of the volumes in the export market to countries in the African region. Such a move has helped the company increase its volumes at a faster pace. The current utilisation is at 77%, which is expected to improve to 82% over the next two years.



Chart 6



Source: Company

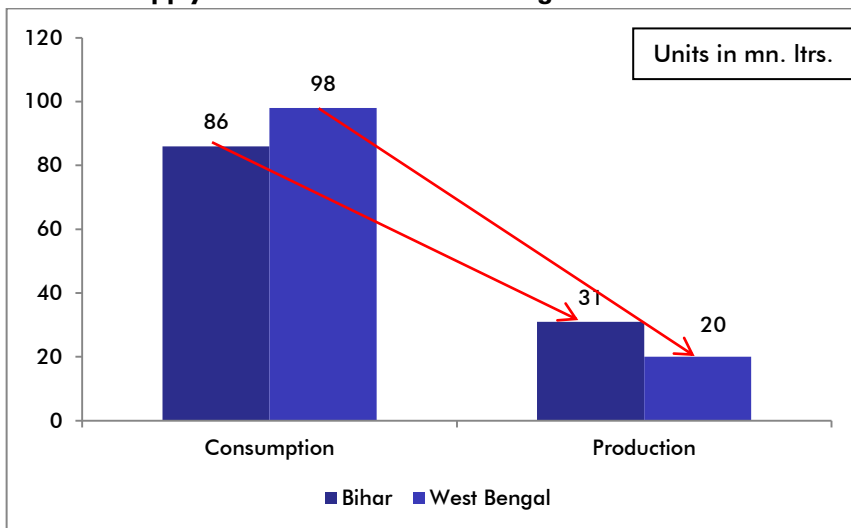
Forward integration to DDGS to improve manufacturing profitability

The distillery business has been hit due to low profitability on account of surge in impact prices and intense competition. In order to improve the profitability of the business, the company forward integrated to manufacture DDGS, using by-products, which is used in animal feed. GSL is one of the first distilleries in India to produce and sell DDGS manufactured from their effluents. It is also seeing a good traction from animal feed industry as it is a comparatively high protein product with a good shelf life. The forward integration into DDGS has improved realisation as well as profitability of the segment. In Q1FY16, the company’s revenue from “Other” segment increased by 7% Q-o-Q driven by value added product DDGS which helped it improve margins.

Setting by Distilleries in the Eastern States

As highlighted earlier, the company is expanding in the Eastern like Bihar and West Bengal. It also has licensee to put up a distillery in Jharkhand State. Globus is expected to incur capital expenditure of Rs 240 crore to put two distilleries of 30 mn litres capacity each. The project is expected to be commissioned by Q2FY17. As highlighted in the under mentioned chart, there is a huge supply deficit of 55 mn litres & 78 mn litres in Bihar & West Bengal respectively. As the Eastern States are deficit in alcohol supply, the expansion is expected to drive both topline and improvement in profitability.

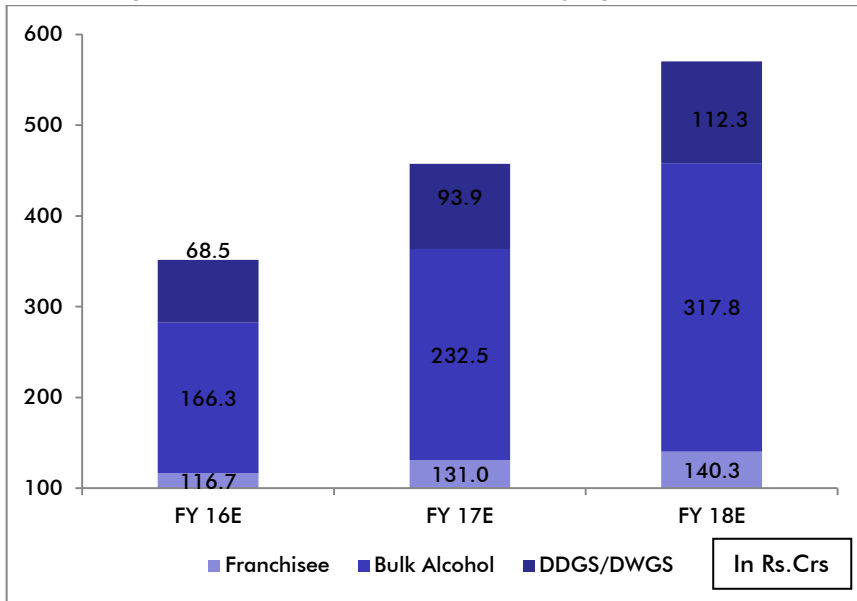
Chart 7 – Supply Deficit in Bihar & West Bengal



Source: Company



Chart 8-Expected Revenue from Manufacturing Operations

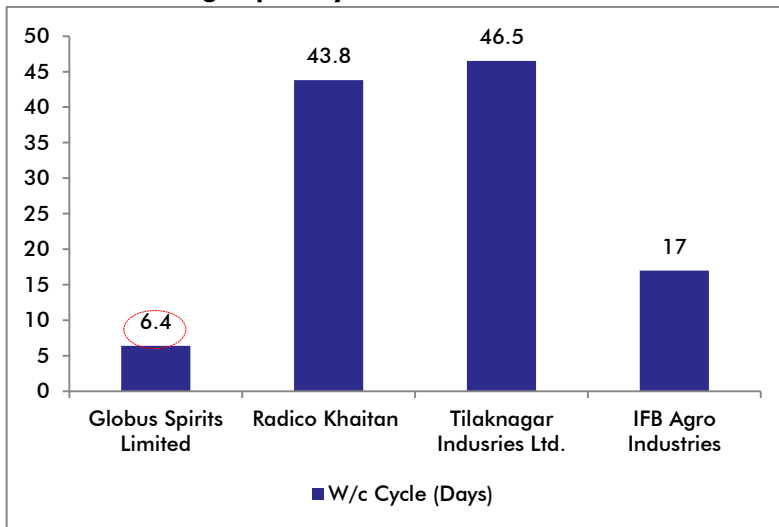


Source: Company Reports

Leaner working capital cycle compared to IMFL companies

Compared to GSL’s peers, GSL has one of the leaner working capital cycles. It has the shortest receivable days of 26.1 compared to 57.5 & 30.5 of Radico Khaitan & Tilaknagar Industries.

Chart 9- Working Capital Cycle in 2015



Source: Companies

Industry is highly controlled by States

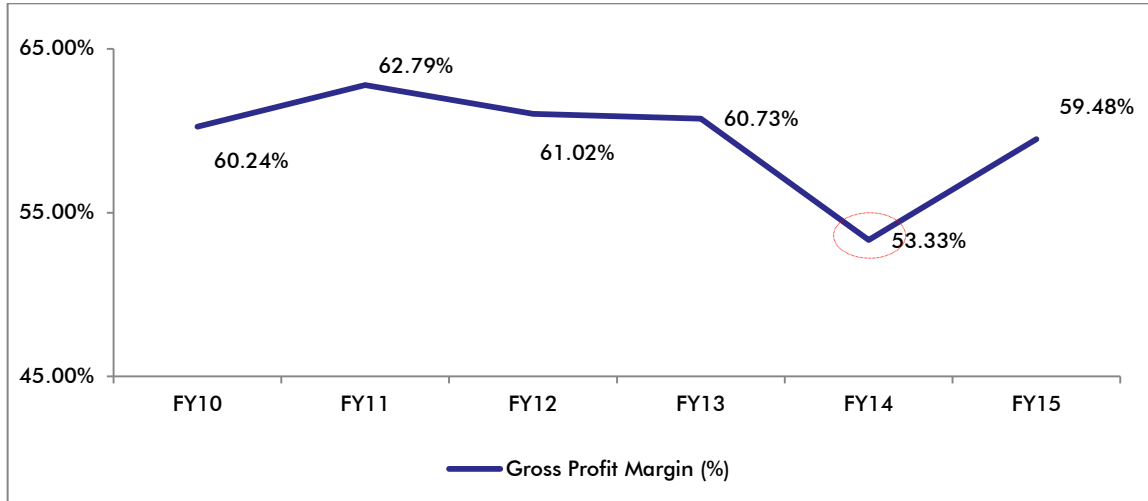
Liquor is largely a State subject in India. As a result most States have their own policy regarding licensee, taxes etc. It is estimated that States collect approx. Rs.500-600 bn of revenue from liquor sales. Given the burgeoning importance of liquor in the State finances, it is increasing used to augment State’s revenue. This has led to high level of taxes and increase in price point for consumers. The high level of taxes has hurt the industry’s growth despite low penetration. Pricing of liquor is also regulated in majority of States. The industry has struggled to pass the surge in raw material cost to the consumers as the prices are state controlled impacting GSL’s profitability. Weak growth in IMFL industry can dent the growth in the manufacturing business of GSL.



Volatility in Raw material prices

Indian liquor industry is plagued by high raw material cost which can be observed in the chart given below. Gross profit margin for FY10-13 averages to around 61%. However, due to higher input costs (only RM costs) it decreased to 53.3% in FY14. GSL is unable to pass through increased costs to consumers as liquor prices are highly regulated by the government. Going forward, with the commodity cycle at its trough, we expect the raw material prices to ease up & GSL to improve its profitability.

Chart 10-G/P Margin over the years

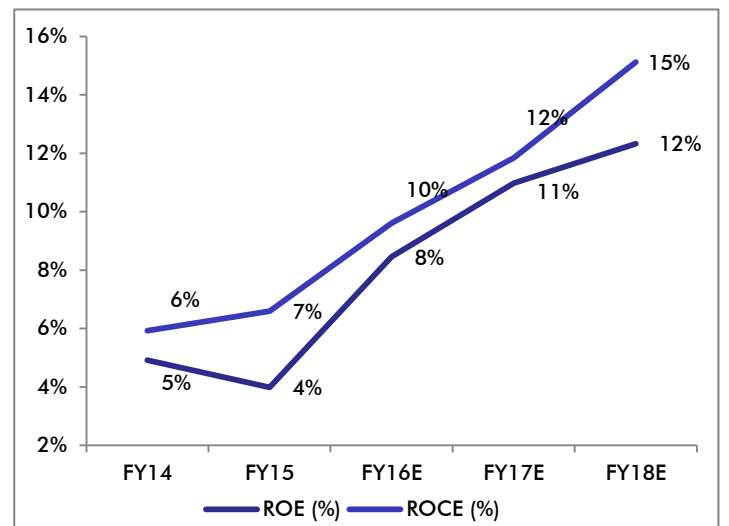
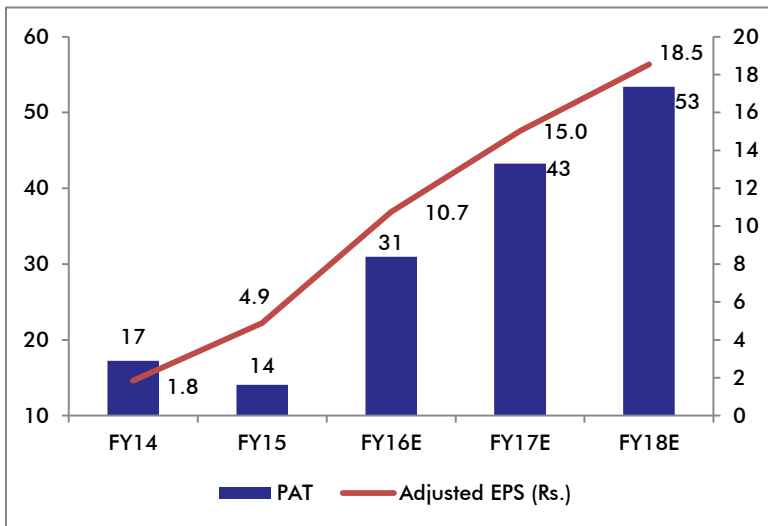
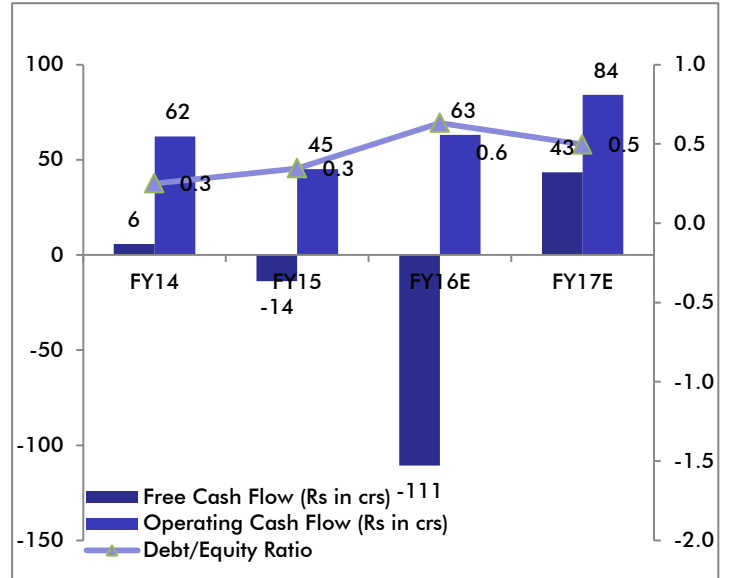
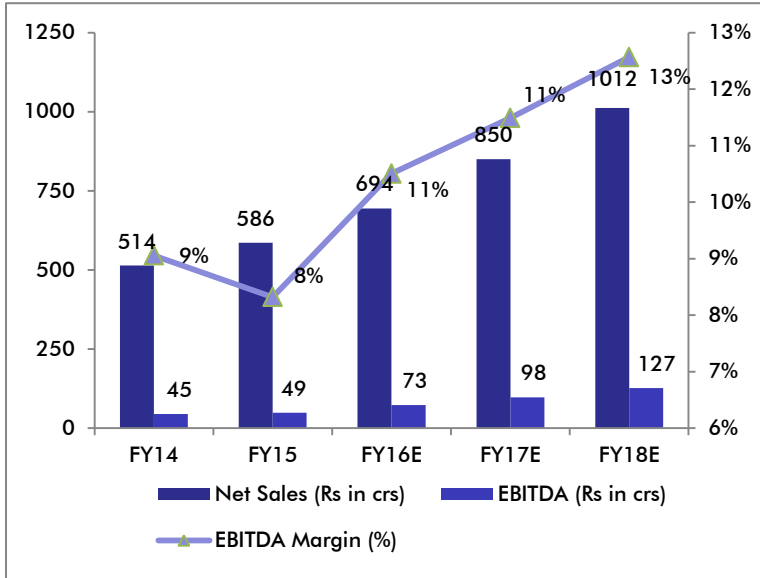




Financial Outlook

We expect GSL's Net sales and PAT to grow at a CAGR ~20.5% and ~75% respectively by FY17 on account of robust sales from new markets of Bihar & WB. Sale of value added products like DDGS will help in setting off the rising input costs & higher tax burden.

The fall in the return ratios is due to higher raw material costs which the liquor industry is unable to pass on the consumers due to pricing pressures. FY15 onwards, we expect better return ratios due to captive consumption & lower input costs. GSL maintains a low leverage which provides it financial flexibility in decision making.



Source: Company Reports

**Valuation**

Using P/E multiple method, we value GSL at Rs.77 per share by Mar'16. We assigned P/E of 6x on FY18EPS and discounted by two years using the cost of equity of 18%.

Peer Comparison

Company Name	Year End	Mcap (Rs. Cr)	Net Sales	PAT Margin	EBITDA Margin	ROE	ROCE	P/E(x)
IFB Agro Industries	Mar'15	320.10	595.05	2.60%	6.79%	7.0%	11.76%	20.69
Globus Spirits	Mar'15	187.5	586.00	1.40%	8.30%	4.0%	6.60%	22.85
GM Breweries	Mar'15	129.50	516.40	1.80%	3.10%	15.50%	21.3%	13.93

Ratios CAGR & Average for last 3 & 5 Years

CAGR Ratio (%)	Last 3 Year	Last 5 Year	Last Year
Revenue (CAGR)	4.9%	17.2%	18.0%
EBITDA (CAGR)	-10.6%	7.7%	18.0%
PBT (CAGR)	-43.7%	-25.8%	214.8%
PAT (CAGR)	-44.3%	-24.6%	65.3%
EPS (CAGR)	-52.1%	-33.1%	334.6%
RoE (AVERAGE)	4.87	10.83	0.78
RoCE (AVERAGE)	7.81	14.18	4.29
EBITDA (%) (AVERAGE)	9.34	10.33	8.15
P/E (AVERAGE)	66.07	42.43	95.87
P/B (AVERAGE)	0.72	0.99	0.64
Debt / Equity (AVERAGE)	0.30	0.31	0.32
Interest Coverage Ratio (AVERAGE)	4.03	9.11	1.53



Company Description

Established in 1992, Globus Spirits Limited (GSL) is engaged in manufacturing, marketing and sale of Indian Made Indian Liquor (IMIL), Indian Made Foreign Liquor (IMFL), Bulk Alcohol and contract bottling for established IMFL brands. The Company has a well-established presence in the IMIL segment and set to venture in the eastern States with launch of distilleries in Bihar and West Bengal. The company is promoted by Mr Ajay Kumar Swarup. He has over 24 years of experience in the liquor industry. Mr.Swarup promoted GSL in 1993 and prior to that co-promoted Associated Distilleries in 1983. He was also the President of All India Distillers’ Association during the years 1992 – 95.

GSL currently operates three modern and fully integrated distilleries at Behror, Rajasthan and Samalkha and Hisar, Haryana. It is one of the largest and most efficient grain based distilleries in India with highest alcohol recovery per unit of grain.

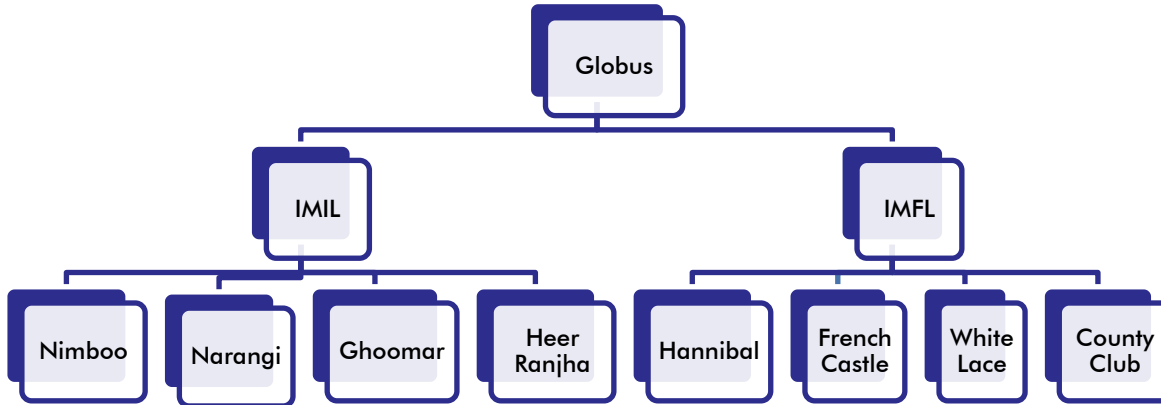
Profile of Board Members

Name	Designation	Profile
Mr. Vivek Gupta	Chairman (Non-Executive & Independent Director)	Over 20 years’ experience in the industry in senior leadership roles. Mr Gupta is Joint Managing Director of Delton Cables Ltd. Mr. Gupta completed his schooling from Doon School, Dehradun and holds a B.Com (Honours) degree from Hans Raj College, Delhi University.
Mr. Ajay Kumar Swarup	Managing Director	Over 24 years of experience in the liquor industry. Mr. Swarup promoted GSL in 1993 and prior to that co-promoted Associated Distilleries in 1983. Mr. Swarup completed his schooling from Doon School, Dehradun; graduated in Economics from St. Stephens College, Delhi University, and is a PGDBM from IIM Kolkata. He was President of All India Distillers’ Association during the years 1992 – 95.
Mr. Shekhar Swarup	Executive Director	Mr. Swarup joined GSL in 2008. Mr. Swarup has graduated in Business and Management from University of Bradford, United Kingdom. He has prior experience with Smart Analyst India.
Mr. Manik Lal Dutta	Executive Director	Over 36 years of experience in alcohol industry. Mr. Dutta was earlier with UB Group as production head for North India & Nepal operation.
Dr. Bhaskar Roy	Executive Director	Over 21 years of experience in finance and general management with companies such as Dhampur Sugar Mills Ltd and Saraya Industries Ltd..
Mr. Rajesh Sehgal	Non-Executive Director	Rajesh Sehgal, senior executive director and head of private equity – South Asia, Middle East and Africa joined the Templeton organization in 1999. He has research responsibilities for companies in India, Africa, and the Middle East. Prior to joining Templeton, Mr. Sehgal worked with SBI Capital Markets Limited as the manager of the Treasury & Investments Group.
Ms. Ruchika Bansal	Non-Executive Director	She has specialization in corporate finance & business strategy and an expert in various fund raising activities. She is a Commerce graduate from SRCC and PGDM (MBA).
Mr. Joginder Singh Dhamija	Non-Executive & Independent Director	Over 46 years of experience in various industries including liquor. Served with major spirit companies including UB Group in multiple positions and as Director and Vice chairman of SAB India.
Mr. Santosh Kumar Bishwal	Non-Executive & Independent Director	Extensive experience with companies such Union Carbide, UB Group in senior positions. Mr. Bishwal is a faculty at XLRI.
Mr. Kunal Agarwal	Non-Executive & Independent Director	Mr. Agarwal is a Founder Director of Brattle Foods Pvt Ltd and Laxman Logistics Pvt Ltd. He has prior experience with A.T. Kearney and Citigroup. Mr. Agarwal holds an A.B. (Honours) degree in Economics from Harvard College.



Globus Spirits'- Product Portfolio in Consumer Business

Chart 15- Product Portfolio



>1% Ownership under Public Shareholders

Major Non-Promoter Share Holders	Shareholding (%)
Templeton Strategic Emerging Markets Fund IV, LDC	17.49
SBI Emerging Business Fund	6.4

Source: Company, DSPL



Financials

Profit & Loss

(Rs Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Net sales	496	586	694	850	1,012
YoY (%)	-	18.0%	18.6%	22.4%	19.0%
Total expenses					
Raw Material Cost	218	238	292	360	428
Employee costs	12	14	16	18	21
Other Manu. Cost	138	172	249	296	341
EBITDA	45	49	73	98	127
YoY (%)	9.1%	8.4%	49.7%	33.9%	30.1%
EBIDTA (%)	9.1%	8.3%	10.5%	11.5%	12.6%
Depreciation	21	22	24	30	35
EBIT	23	27	49	68	92
Interest	10	14	14	20	22
Other income	3	4	2	2	4
PBT	16	17	37	50	74
Less: Taxation	(1)	3	9	13	22
Effective tax rate (%)	-6.2%	18.7%	25.2%	25.2%	30.2%
Recurring PAT	17	14	28	38	52
YoY (%)	-	18.4%	95.8%	36.4%	37.7%
PAT (%)	3.5%	2.4%	4.0%	4.4%	5.1%
Exp. items (net of tax)	(13)	(6)	(6)	(6)	(6)
Reported PAT	4	8	22	32	46

Key Ratios

	FY14	FY15	FY16E	FY17E	FY18E
Recurring EPS (Rs)	1.8	4.9	9.6	13.0	18.0
Reported EPS (Rs)	0.5	2.9	7.6	11.1	16.0
Book value (Rs)	120.7	123.3	129.7	139.7	154.3
Dividend per share (Rs)	0.3	0.6	1.0	1.0	1.2
Net Debt Equity Ratio	0.2	0.3	0.6	0.4	0.2
Payable Days	44	32	32	32	32
Debtor Days	26	16	16	16	16
Inventory Days	25	21	20	20	20
ROCE (%)	5.9%	6.6%	8.8%	10.8%	15.0%
Recurring ROE (%)	4.9%	4.0%	7.6%	9.7%	12.2%
ROA (%)	2.6%	2.1%	3.5%	4.1%	5.5%
Div Yield (%)	4.0%	4.0%	4.7%	4.7%	5.6%
Valuation Ratios					
PE (x)	133.2	32.0	6.3	4.6	3.3
Cash P/E (x)	131.2	20.4	7.9	5.4	3.7
Price/book value (x)	0.5	0.5	0.5	0.4	0.4
Market cap/sales (x)	1.3	1.7	0.2	0.2	0.2
EV/sales (x)	1.9	2.2	0.6	0.5	0.4
EV/EBITDA (x)	7.7	8.1	5.8	4.1	2.7
Earnings growth					
EBITDA (%)	-36%	8%	50%	34%	30%
EPS (%)	-97%	316%	411%	36%	38%
PAT (%)	-50%	-18%	96%	36%	38%

Balance Sheet

(Rs Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Equity capital	96	29	29	29	29
Reserves	255	326	345	373	415
Net worth	351	355	374	402	444
Total borrowings	101	144	273	256	180
Minority Interest	0	0	0	0	0
Non Curr Liabilities	95	93	120	139	158
Curr. Liabilities	94	98	116	142	169
Total liab.	641	689	883	939	951
Net block	444	492	643	653	638
Investments	0	0	0	0	0
Others	82	89	105	116	122
Current assets					
Inventories	46	50	57	70	84
Debtors	47	38	45	55	66
Cash	6	6	16	25	17
Other Curr. assets	16	14	16	20	24
Total assets	641	689	883	939	951

Cash Flow

(Rs Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Pre Tax Profit	3	12	31	45	69
Depn and w/o	21	22	24	30	35
Change in working cap	(27)	11	1	(1)	(1)
Taxes Paid	12	(6)	(8)	(11)	(20)
Others	(6)	7	25	26	32
Op. Cash flow	3	46	73	89	115
Capex (Net)	(29)	(70)	(175)	(40)	(20)
Investments	0	(0)	0	0	0
Inv. Cash flow	(29)	(70)	(175)	-40	-20
Dividend	(4)	(2)	(3)	(3)	(4)
Fresh Equity	0	6	0	0	0
Others	0	(8)	0	0	0
Debt	15	42	129	(17)	(77)
Interest	(10)	(14)	(14)	(20)	(22)
Fin. Cash flow	1	24	112	-40	-103
Net change in cash	(24.6)	(0.4)	9.8	9	(8)
Opening cash	31.1	6.4	6.4	16.2	24.7
Closing cash	6.4	6.4	16.2	24.7	17.1



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