



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

KABRA EXTRUSIONTECHNIK LTD.	BSE CODE: 524109 NSE CODE: KABRAEXTRU
Industry: Engineering	CMP: Rs. 72.15 (30/12/2018)
Market Cap: 230.18 (INR in Crore)	Target Price: Rs. 145.00
Date: Dec 30, 2018	Time Period: 12 – 24 months



Saral Gyan Capital Services

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An Independent Equity Research Firm

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1. Company Background



Kabra Extrusiontechnik Ltd. is the flagship company of Kolsite group and one of the largest players in the plastic extrusion machinery known for its innovative offerings. The company specializes in providing plastic extrusion machinery for manufacturing pipes and films. It has two manufacturing locations in Daman. The plastic extrusion machinery industry's prospects appear positive in the long term.

The Kolsite group is known for being the pioneer of various technologically advanced plastic extrusion solutions. Kolsite group under its roof has 4 flagship companies dealing in different avenues like extrusion machinery, master batches, secondary packaging.

Kolsite group of companies:

- Kabra Extrusiontechnik Limited (KET)
- Plastiblends India Limited (PBI)
- Maharashtra Plastic & Industries Limited (MPI)
- Kolsite Corporation LLP – Agency Division (KCLLP)

Kolsite Group commenced its operations in the year 1962 at a small factory in Tardeo that had a total area of 800 square feet. Mr. SV Kabra left his traditional business and ventured into the plastics Industry. In 1962, the industry was at a very nascent stage, and he decided venture into processing and while processing he faced various issues with the machinery which eventually encouraged him to manufacture machinery for plastic extrusion.

The group entered into joint ventures with the Global players of this field to soon become a leader in Plastic Extrusion Machinery in India. Since then, the company is known for being the pioneers of various technologically advanced plastic extrusion plants. The group has completed 55 years of its existence.

The company has global presence in ~90 countries. Kabra Extrusiontechnik has one of the largest sales & services network in India and equally efficient agencies in South Africa, Turkey, Middle East, South East Asia & Latin America. This helps the company to cater broader spectrum of clients and enhance its capabilities as a manufacturing company.

Kabra Extrusiontechnik has 2 state-of-the manufacturing facilities with a combined area of about 83820 sq. m. These facilities consist of Administration Buildings, Govt. recognised in-house R & D Unit, Quality Testing Units, Machine Tool Equipment & Paint Shop. The company has one of the largest R & D team in the Plastics Machinery Industry with more than 45 dedicated engineers working in different areas of processing, manufacturing, application development, design, controls and automation.

Mr. SV Kabra is the Chairman and founder of the Kolsite Group of companies and has been the main driving force behind its growth over the last 54 years. In 2013, he was awarded with the Outstanding Achievement Award at Vinyl India 2013 conference for his pioneer work in the domestic plastic industry. He has been on the management & executive councils of many reputed plastics organizations in India. SV Kabra has done BA in Economics (Honours) from Mumbai University.

Mr. SN Kabra is the co-founder of the Kolsite Group and Vice-Chairman and Managing Director of the company. He holds a degree in Mechanical Engineering and has strong techno-commercial experience. Since 1960s, he has been instrumental in defining company's strategies, business goals and overall development initiatives.

Global Plastic Industry Growth Outlook

The global plastics industry is witnessing continuous shift of manufacturing bases to low-cost countries specifically India. This coupled with rise in the number of new manufacturing establishments are building India's image as a prime driver of growth in the plastics industry.

The plastic pipe industry has registered a 15% growth and is likely to maintain the same growth rate in coming years. Within the industry, the organized plastic pipe segment is estimated at around 60%, and is likely to register even higher growth driven by shift from unorganized to organized segment and government focus on agriculture, micro-irrigation, low cost housing projects and pick up in infrastructure growth.

Moreover, packaging sector is one of the major consumers of plastics followed by agriculture and infrastructure. Flexible packaging has been the fastest growing sectors in the packaging industry over the past 10 years driven by changing lifestyle patterns of growing middle class and focus on convenience and sustainability. Further, this segment is expected to grow exponentially going ahead.

Flexible packaging is the most economical format of packaging, preserving and distributing goods, beverages, pharmaceuticals and products demanding extended shelf life. Management highlighted that the global market for flexible packaging is expected to grow at an annual average rate of 3.4% during the 2015-2020 (over 20% in case of India) period reaching USD 248 million. Food packaging occupies over 70% of the world consumer flexible packaging market and is growing by 4.0% on average in volume terms.

Currently, while North America dominates the global flexible packaging market, however Asia Pacific is expected to catch up owing to increasing disposable incomes and rising demand and changing packaging trends in the end user segment. Significant increase in demand for beverages, packaged foods, pharmaceuticals and personal care products are the growth drivers in India and neighbouring countries.

2. Recent Development

i) Promoters increased stake in the company through open market purchase – Dec 2018

During Sept'18 quarter, promoters have increased their stake in the company by 0.4%. Promoters continue to increase their stake in Dec'18 quarter also through open market purchase. Below are the details of transactions made by promoters since Aug'18.

Name of Person	Category of Person	Number	Value	Transaction	Security held Post Transaction	Period	Mode of Acquisition
Ekta Anand Kabra	Promoter & Director	2,801	216209.1	Acquisition	378062 (1.19)	06/12/2018 06/12/2018	Market
Ekta Anand Kabra	Promoter & Director	221	17169.49	Acquisition	374409 (1.17)	04/12/2018 05/12/2018	Market
Ekta Anand Kabra	Promoter & Director	852	66191.88	Acquisition	375261 (1.17)	04/12/2018 05/12/2018	Market
Ekta Anand Kabra	Director	1,007	77730.33	Acquisition	364188 (1.14)	28/11/2018 30/11/2018	Market
Ekta Anand Kabra	Director	5,000	385950	Acquisition	369188 (1.15)	28/11/2018 30/11/2018	Market
Ekta Anand Kabra	Director	5,000	385950	Acquisition	374188 (1.17)	28/11/2018 30/11/2018	Market
Ekta Anand Kabra	Promoter & Director	3,987	303490.44	Acquisition	358963 (1.12)	26/11/2018 27/11/2018	Market
Ekta Anand Kabra	Promoter & Director	4,218	321369.42	Acquisition	363181 (1.14)	26/11/2018 27/11/2018	Market
Anand S Kabra	Promoter & Director	797	55319.77	Acquisition	6296803 (19.74)	11/10/2018 11/10/2018	Market
Shreevallabh G Kabra	Promoter & Director	10,000	884100	Acquisition	3235344 (10.14)	19/09/2018 19/09/2018	Market
Veenadevi S Kabra	Immediate Relative	1,648	148155.2	Acquisition	1221842 (3.83)	18/09/2018 18/09/2018	Market
Veenadevi S Kabra	Immediate Relative	8,352	753350.4	Acquisition	1230194 (3.86)	18/09/2018 18/09/2018	Market
Ekta Anand Kabra	Promoter & Director	5,000	447000	Acquisition	354976 (1.11)	14/09/2018 14/09/2018	Market
Veenadevi S Kabra	Immediate Relative	12,228	1096484.76	Acquisition	1210475 (3.79)	14/09/2018 17/09/2018	Market
Veenadevi S Kabra	Immediate Relative	9,719	876556.61	Acquisition	1220194 (3.82)	14/09/2018 17/09/2018	Market
Ekta Anand Kabra	Promoter & Director	1,551	135991.68	Acquisition	344976 (1.08)	11/09/2018 12/09/2018	Market
Ekta Anand Kabra	Promoter & Director	5,000	441950	Acquisition	349976 (1.10)	11/09/2018 12/09/2018	Market
Veenadevi S Kabra	Immediate Relative	5,000	442100	Acquisition	1198247 (3.76)	11/09/2018 11/09/2018	Market
Ekta Anand Kabra	Promoter & Director	8,390	731775.8	Acquisition	343425 (1.08)	07/09/2018 07/09/2018	Market
Veenadevi S Kabra	Immediate Relative	1,610	139619.2	Acquisition	1193247 (3.75)	07/09/2018 07/09/2018	Market
Ekta Anand Kabra	Promoter & Director	5,000	432250	Acquisition	332535 (1.04)	05/09/2018 06/09/2018	Market
Ekta Anand Kabra	Promoter & Director	2,500	219300	Acquisition	335035 (1.05)	05/09/2018 06/09/2018	Market
Veenadevi S Kabra	Immediate Relative	5,000	433200	Acquisition	1191453 (3.74)	05/09/2018 06/09/2018	Market
Veenadevi S Kabra	Immediate Relative	184	16048.48	Acquisition	1191637 (3.74)	05/09/2018 06/09/2018	Market
Ekta Anand Kabra	Promoter & Director	2,704	243981.92	Acquisition	321929 (1.01)	31/08/2018 03/09/2018	Market
Ekta Anand Kabra	Promoter & Director	5,606	505212.72	Acquisition	327535 (1.03)	31/08/2018 03/09/2018	Market
Veenadevi S Kabra	Immediate Relative	3,356	297543	Acquisition	1186453 (3.72)	29/08/2018 29/08/2018	Market
Veenadevi S Kabra	Immediate Relative	105	9315.6	Acquisition	1180305 (3.70)	27/08/2018 27/08/2018	Market
Veenadevi S Kabra	Immediate Relative	2,792	248823.04	Acquisition	1183097 (3.71)	28/08/2018 28/08/2018	Market
Veenadevi S Kabra	Immediate Relative	6,023	526405.23	Acquisition	1175083 (3.68)	20/08/2018 21/08/2018	Market
Veenadevi S Kabra	Immediate Relative	5,117	450500.68	Acquisition	1180200 (3.70)	20/08/2018 21/08/2018	Market
Veenadevi S Kabra	Immediate Relative	1,500	131055	Acquisition	1162360 (3.64)	17/08/2018 21/08/2018	Market
Veenadevi S Kabra	Immediate Relative	6,700	586250	Acquisition	1169060 (3.66)	17/08/2018 21/08/2018	Market
Anand S Kabra	Promoter & Director	5,210	453009.5	Acquisition	6287406 (19.71)	14/08/2018 16/08/2018	Market
Anand S Kabra	Promoter & Director	8,600	747856	Acquisition	6296006 (19.74)	14/08/2018 16/08/2018	Market

ii) Kabra Extrusiontechnik & Battenfeld Cincinnati extend cooperation – Nov 2018

Kabra Extrusiontechnik Limited & Battenfeld Cincinnati, Germany (world's leading extrusion machinery manufacturer) have announced further extension of their cooperation beyond 2026.

The two companies have been in partnership since 1983 and the existing technology agreement, valid until the year 2026 has been extended further by enlarging the scope and making it more comprehensive and inclusive. Gerold Schley – CEO and Dr. Henning Stieglitz – CTO of Battenfeld Cincinnati along with S V Kabra - Chairman and Anand Kabra Managing Director of Kabra Extrusiontechnik Ltd were in discussion for the last few months, on the ways to create a platform and understanding between the two companies, so that the cooperation extends beyond 2026 and is mutually beneficial to both the companies.

iii) Kabra Extrusiontechnik enters a strategic partnership with Unicor GmbH – Oct 2016

Kabra Extrusiontechnik Limited & Unicor GmbH entered into a strategic partnership to provide a fully integrated extrusion solutions for the Indian & global plastics corrugated pipe industry.

The collaboration plans to make corrugated pipe machines in India using Unicor expertise with Kabra Extrusiontechnik manufacturing capabilities to offer value for money solutions in India as well as other strategic markets.

Unicor has unique expertise in providing customized solutions for customers. The company has been in business for over 30 years and enjoys Global leadership status with strong customer base in more than 50 countries. Unicor's range of products include various types of machines for all applications – electrical, medical, automotive, water, sewer pipes etc. with pipe diameters from 3 mm until 2400 mm. Unicor's products are extremely versatile, aimed at providing higher productivity and better energy efficiency.

iv) Kabra Extrusiontechnik enters a joint venture with Extron Mecanor – Oct 2016

Kabra Extrusiontechnik Limited & Extron Mecanor inked a joint venture to provide a One Stop Shop approach to extrusion solutions for the global plastics processing industry. Extron Mecanor from Finland is a pioneer in pipe socketing & bellings solutions.

Extron-Mecanor has unique expertise in providing customized solutions for customers. It has been in business for over 35 years and making sales in nearly 50 countries. Besides high quality machinery, they provide guaranteed after sales service and have expertise in working out the best solutions. Extron-Mecanor's product range includes solutions for pipe bellings and socketing, Pipe, rain gutter, profile packaging, and seal ring inserting.

3. Financial Performance

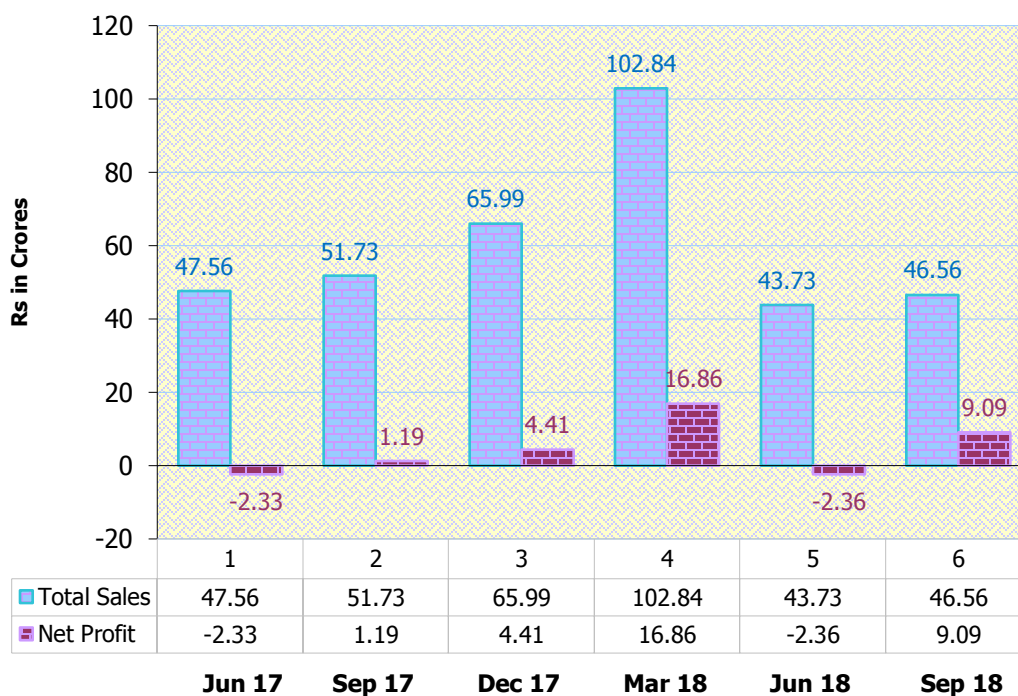
Kabra Extrusiontechnik standalone net profit rose 663.87% in the Sept 2018 quarter

Net profit of Kabra Extrusiontechnik rose 663.87% to Rs 9.09 crore in the quarter ended September 2018 as against Rs 1.19 crore during the previous quarter ended September 2017. Sales declined 9.94% to Rs 46.56 crore in the quarter ended September 2018 as against Rs 51.73 crore during the previous quarter ended September 2017.

Kabra Extrusiontechnik reports standalone net loss of Rs 2.36 crore in the June 2018 quarter

Net Loss of Kabra Extrusiontechnik reported to Rs 2.36 crore in the quarter ended June 2018 as against net loss of Rs 2.33 crore during the previous quarter ended June 2017. Sales declined 8.05% to Rs 43.73 crore in the quarter ended June 2018 as against Rs 47.56 crore during the previous quarter ended June 2017.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account

Particulars (Rs in Crores)	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018 E	Mar 2019 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	65.99	102.84	43.73	46.56	62.48	99.73
Other Operating Income	--	--	--	--	--	--
Total Income – Operations	65.99	102.84	43.73	46.56	62.48	99.73
Raw Materials Consumed	48.09	57.47	43.31	32.18	46.29	54.27
Purchase of Traded Goods	--	--	--	--	--	--
Increase/Decrease in Stocks	-5.99	4.78	-15.28	-4.3	-4.84	5.23
Power & Fuel	--	--	--	--	--	--
Employees Cost	8.07	9.63	8.71	8.6	8.35	9.71
Depreciation	2.2	1.91	1.8	1.76	1.92	1.81
Admin & Selling Expenses	--	--	--	--	--	--
R & D Expenses	--	--	--	--	--	--
Provisions & Contingencies	--	--	--	--	--	--
Other Expenses	9.27	11.28	7.45	9.11	8.45	10.25
P/L Before Other Income	4.36	17.77	-2.27	-0.78	2.31	18.46
Other Income	0.86	0.57	0.34	13.46	0.91	0.49
P/L Before Int., E. Items & Tax	5.21	18.34	-1.93	12.67	3.22	18.95
Interest	0.47	0.33	0.43	0.65	0.62	0.58
P/L Before E. Items & Tax	4.74	18.01	-2.36	12.02	2.6	18.37
Exceptional Items	--	--	--	--	--	--
P/L Before Tax	4.74	18.01	-2.36	12.02	2.6	18.37
Tax	0.33	1.16	0	2.93	0.18	1.18
P/L After Tax – Ord. Activities	4.41	16.86	-2.36	9.09	2.42	17.19
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
Net Profit/(Loss)	4.41	16.86	-2.36	9.09	2.42	17.19
Equity Share Capital	15.95	15.95	15.95	15.95	15.95	15.95
Reserves	--	--	--	--	--	--
Calculated EPS	1.38	5.28	-0.74	2.85	0.76	5.39
Calculated EPS (Annualised)	5.52	21.12	-2.96	11.4	3.04	21.56
Public Shares Holding	13980260	13817435	13817435	13688540	NA	NA
Public Share Holding (%)	43.82	43.31	43.31	42.91	NA	NA

As per our estimates, the company will perform better over next 2 years with increase in Government spending with higher focus towards agriculture and infrastructure sector to boost rural growth.

4. Peer Group Comparison

PEER GROUP	KABRA EXTRUSION TECHNIK	RAJOO ENGINEERS	WINDSOR MACHINES
CMP	72.15	30.05	64.55
52 W H/L	142.40/61.95	62.50/26.45	161.00/51.10
Market Cap	230.18	184.90	419.13
Results (in Crores)	Sep-18	Sep-18	Sep-18
Sales	46.56	24.73	74.54
PAT	9.09	0.90	-0.37
Equity	15.95	6.15	12.99
EPS (TTM)	8.77	1.78	2.00
P/E	8.23	16.88	32.28

5. Key Concerns / Risks

- Domestic extrusion machinery segment is highly fragmented, characterized by presence of various small and micro players which limits pricing power. Therefore, the company is exposed to competition from domestic players and imported extrusion machinery. Also, the segment is technology-intensive and is susceptible to the risk of technological obsolescence. However, the same is mitigated partly through company's technological tie-ups and collaboration with international players such as Battenfeld-cincinnati (Germany), Unicore GmbH, Extron Mecanor, Penta Srl Italy.
- The demand for extrusion machinery is linked to the capital expenditure (capex) programme of plastic products manufacturers. The performance of the company depends on the growth and demand in the end user industries i.e. plastic pipes, irrigation and agriculture pipes and flexible packaging and their capex cycle. Any slowdown or delay in the capex of these industries can have negative implications on the company's business.

6. Saral Gyan Recommendation

- ✚ The plastic pipe industry has registered growth of ~15 percent and is likely to maintain the same growth rate in coming years. Within the industry, the organized plastic pipe segment is likely to register even higher growth driven by shift from unorganized to organized segment. Moreover, government focus on agriculture, micro-irrigation, low cost housing projects and pick up in infrastructure growth will augur well for overall demand of plastic pipes. Moreover, packaging film industry is also expected to grow at a healthy rate, driven by food industry, personal care and pharma products. Kabra Extrusiontechnik being the largest player in the plastic extrusion machinery with diversified product portfolio backed by strong management team is expected to be the direct beneficiary.
- ✚ The company continued its focus on marketing activities and strengthening its agent network by participating in various trade fairs and exhibitions. It has made significant inroads in many new markets. During FY17-18, the company participated in exhibitions like PlastIndia, Plast Eurasia, Plastic & Rubber – Indonesia, Plast Alger, etc. to showcase its product portfolio to strengthen its geographical base as well as clientele. The company demonstrated live and launched Smart Faktory – A digital extrusion platform at PlastIndia show - 2018. Smart Faktory is a value adding part of production process, generates real customer benefits by exploring new opportunities from smart data to ensure real time control & decision for optimisation of product as well as operations.
- ✚ The company has also initiated effective steps to widen its products portfolio by entering into joint venture with M/s. Penta SRL, Italy. Joint venture company, Penta Auto Feeding India Ltd. has already started manufacturing and supply of auto feeding systems. The company has also undertaken manufacturing of bellling machines through its subsidiary, Kabra Mecanor Belling Technik Pvt. Ltd., and manufacture corrugators with technology from Unicor GmbH, Germany. The company has also imported technology to manufacture flat-drip laterals extrusion lines from Metzerplas Industries Ltd., Israel.
- ✚ The company has registered sales CAGR of 8.3%, profit CAGR of 18.9% with ROE of 11.3% over last 5 years. We expect company performance to improve going forward with increase in capex in micro-irrigation, low cost housing sector and pick up in infrastructure growth.

KEY FINANCIALS	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018
Return on Equity (%)	11.18	13.47	14.41	10.36	8.32
ROCE (%)	10.79	13.36	13.52	10.37	8.54
Operating Profit Margin (%)	10.45	10.91	12.76	10.82	10.51
Net Profit Margin (%)	6.24	6.74	7.21	7.19	7.15
Debt to Equity (%)	0.13	0.15	0.11	0.04	0.02

- ✚ Kabra Extrusiontechnik has ventured into corrugated pipes with its collaboration with Unicolor. Corrugated pipe is one of the fastest growing segments in the pipe industry considering its higher acceptance over cement pipes in sewage and drainage applications. The company has also introduced other new products like pipe extrusion lines for foam core pipes, co-rotating twin screw extruders and compounding machines and lines for lead free compounds and processing applications. Expansion of the product range across the value chain is expected to augur well for the company in medium to long term.
- ✚ Kabra Extrusiontechnik through constant R&D and Innovation has introduced several products and solutions for the first time in the plastic extrusion industry since 1970. Moreover, the company is having global collaborations and technical tie ups with the leading companies in plastic industry, as Battenfeld-Cincinnati (Germany-Austria-USA), Penta SRL (Italy), Greiner (Austria), Unicolor (Germany), Extron Mecanor (Finland). Long term partnerships with global suppliers for access to latest technology and to increase product offerings will support company to stay ahead of the competition. This is critical as technological obsolescence could be a key risk in the industry.
- ✚ The company is serving business requirement of many reputed players in the plastic pipe and flexible packaging industry. Companies like Supreme Industries, Finolex Industries, Astral Poly Technik, Uflex, Ashirwad Pipes, Prince Pipes Systems etc are clients of Kabra Extrusiontechnik. As end industry grows with rise in demand and shift of business from unorganized to organized players, Kabra Extrusiontechnik with its diversified client base and strong execution track record is expected to grow as well.
- ✚ As on Sept'18, promoter's shareholding in the company is 57.09% without pledging of any shares. Promoters have increased their shareholding by 0.4% over last 6 months, increase in shareholding by promoters is positive indicating their confidence in future growth prospects of the company. Institutional shareholding in the company is low at 1.19%.

QUARTER	Mar'15	Mar'16	Mar'17	Mar'18	Sep'18
Promoters Shareholding (In %)	56.17	56.17	56.18	56.69	57.09

- ✚ The company is paying regular dividend to its shareholders. It paid dividend of Rs. 2 per share for FY2017-18. At current price, dividend yield is 2.78 percent. Moreover, the company has rewarded shareholders by issuing bonus share in the ratio of 1:1 in the year 2010.
- ✚ As per our estimates, Kabra Extrusiontechnik Ltd can deliver net profit of Rs. 23.45 crores in FY 2019-20 with annualized EPS of Rs. 7.35. At current price of 72.15, stock is available at forward P/E multiple of 9.8X based on FY19-20 earnings. Company's

valuation looks attractive considering expected increase in its profitability with rise in Govt spending towards improvement in rural infrastructure with focus on low cost housing and sanitary facilities.

✚ On equity of Rs. 15.95 crore, the estimated annualized EPS for FY 19-20 works out to Rs. 7.35 and the Book Value per share is Rs. 73.19. At current market price of Rs. 72.15, stock price to book value is 0.99.

Considering secular growth opportunity in the agriculture and infrastructure industry with government focus on micro-irrigation, low cost housing projects and infrastructure development, double digit growth expected in flexible packaging industry driven by rising demand of packaged food products, personal care products and pharmaceuticals, company's strong track record in installation and after sales service of plastic extrusion machinery, rich product portfolio, experienced management team with back up of global collaborations with the leading companies in plastic industry and a debt free balance sheet, Saral Gyan team recommends **"Buy"** on **Kabra Extrusiontechnik Ltd** at current market price of Rs. 72.15 for target of Rs. 145 over a period of 12 to 24 months.

Buying Strategy:

- 80% at current market price of Rs. 72.15
- 20% at price range of Rs. 55 – 60 (in case of correction in stock price)

Portfolio Allocation: 3% of your equity portfolio

7. Disclaimer

Important Notice: Saral Gyan Capital Services is an Independent Equity Research Company.

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- Buy recommendation:** This means that the investor could consider buying the concerned stock at current market price keeping in mind the tenure and objective of the recommendation service.
- Hold recommendation:** This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
- Buy at lower price:** This means that the investor should wait for some correction in the market price so that the stock can be bought at more attractive valuations keeping in mind the tenure and the objective of the service.
- Sell recommendation:** This means that the investor could consider selling the stock at current market price keeping in mind the objective of the recommendation service.

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