

Cummins India (KKC IN)

Domestic performance shadowed by exports weakness

INDIA | CAPITAL GOODS | Quarterly Update

3 February 2016

Top takeaways from Q3FY16

- ✗ Weak operational performance; however, PAT (adjusted for inventory write off) was in line with our estimate due to lower tax rate.
- ✗ Exports fell for the second consecutive quarter (-6% yoy) due to weak global demand.
- ✓ The positive surprise was continued growth in domestic sales (+12% yoy) led by 23% yoy growth in its power generation business.

Key highlights: Sales growth at 6% yoy was driven by strong performance in power generation (+23% yoy) and distribution and spares (+9% yoy). Export weakness offset strong domestic performance. Gross margins (adjusted for Rs 160mn pertaining to excess inventory provision) were down 100bps yoy to 37.3% due to adverse sales mix. Weak gross margins translated into lower-than-expected EBITDA. However, lower tax rate (13% Q3FY16 against 17% Q2FY16) led to PAT being in line with our estimate.

Conference call takeaways

- ✓ Management said its domestic power generation business continued to benefit from pick up in infra (particularly roads). It maintained domestic revenue guidance at 10-15%.
- ✓ Over the mid to long term, Cummins India should benefit from its parent Cummins Inc's plans to restructure its sourcing strategy towards low-cost countries. However, no signs of this are visible in the near term.
- ✗ Competitive intensity continues to remain high in the domestic market, especially in the low-kVA segments.
- ✗ Cummins maintained its export revenue guidance of 0-5% with headwinds due to weak global demand. It expects market share gains in exports to lead incremental growth.

Outlook and valuation

We are enthused by Cummins' above-industry growth in the domestic market and more so by its power-gen business, which reflects on-ground recovery in capacity creation. However, the export outlook remains weak in the light of a weak global environment. We lower our export growth expectation to 7% for FY17 (from 20%), which is still higher than the management's guidance of 0-5%. We introduce FY18 estimates and rollover our multiple to September 2017 EPS and value Cummins at 30x to arrive at our target price of Rs 1050 (unchanged). Current valuations of 26x September 2017 P/E remain expensive for a stock that we expect to deliver 14% CAGR in FY16-18. Hence, we maintain our Neutral rating.

Neutral (Maintain)

CMP RS 897 / TARGET RS 1050 (+17%)

COMPANY DATA

O/S SHARES (MN) :	277
MARKET CAP (RSBN) :	262
MARKET CAP (USDBN) :	3.9
52 - WK HI/LO (RS) :	1247 / 829
LIQUIDITY 3M (USDMN) :	2.3
PAR VALUE (RS) :	2

SHARE HOLDING PATTERN, %

	Sep 15	Jun 15	Mar 15
PROMOTERS :	51.0	51.0	51.0
FII / NRI :	17.8	17.4	18.6
FI / MF :	18.1	18.2	17.3
NON PRO :	1.5	1.3	1.4
PUBLIC & OTHERS :	12.4	12.6	12.3

Key Financials

Rs mn	FY16E	FY17E	FY18E
Net Sales	49,133	57,126	67,849
EBITDA	8,184	10,074	12,516
Net Profit	7,992	9,102	10,343
EPS, Rs	28.8	32.8	37.3
PER, x	31.1	27.3	24.0
EV/EBITDA, x	30.3	24.6	19.8
PBV, x	25.1	25.7	26.2
ROE, %	-	-	-

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	49,133	57,126	-2%	-5%
EBITDA	8,184	10,074	-4%	-8%
Core PAT	7,992	9,102	1.8%	-6.5%
EPS (Rs)	28.8	32.8	1.8%	-6.5%

Jonas Bhutta & Hrishikesh Bhagat

(Rs mn)	Q3FY16	Q3FY15	yoY growth %	Q2FY16	qoq growth %	vs. Comments	
						expectations	%
Sales	11,469	10,831	6%	11,977	-4%	12,091	Sales below estimate due to weak export growth
Gross margin	37.3%	38.4%		37.6%		38.5%	Unfavourable mix led to lower than expected gross margin
EBITDA	1,870	1,894	-1%	2,007	-7%	2,152	
EBITDA margin (%)	16.3%	17.5%		16.8%		17.8%	Lower gross margin also led to weak margins
EBIT (%)	15%	15%		15%		16%	
PBT	2,232	2,075	8%	2,405	-7%	2,422	
Recurring PAT	1,944	1,810	7%	1,986	-2%	1,986	Recurring PAT in line with estimate due to lower tax rate
Reported PAT	1,784	1,810	-1%	1,986	-10%	1,986	
EPS	6.4	6.5	-1%	7.2	-10%		

Quarterly results

RS MN	Q316	Q315	% CHANGE
Net Sales	11,469	10,831	5.9%
Raw Material	7,191	6,676	7.7%
% of sales	62.7%	61.6%	
Employee cost	1,091	1,018	7.3%
% of sales	9.5%	9.4%	
Other Expenses	1,317	1,244	5.8%
% of sales	11.5%	11.5%	
EBITDA	1,870	1,894	-1.3%
EBITDA margins (%)	16.3%	17.5%	
Depreciation	202	217	-6.9%
EBIT	1,668	1,677	-0.5%
EBIT margins (%)	14.5%	15.5%	
Interest	2	13	-84.3%
Other Income	566	411	37.5%
PBT	2232	2075	7.5%
Tax	288	265	8.8%
PAT	1,944	1,810	7.4%
PAT Margin (%)	16.9%	16.7%	
EPS, (Rs)	7.0	6.5	7.4%

Source: Company, PhillipCapital India Research Estimates

Financials

Income Statement

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Net sales	43,211	48,074	56,014	66,682
Growth, %	11	11	17	19
Total income	44,058	49,133	57,126	67,849
Raw material expenses	-28,557	-31,740	-36,218	-42,677
Employee expenses	-3,936	-4,296	-4,721	-5,329
Other Operating expenses	-4,215	-4,913	-6,112	-7,328
EBITDA (Core)	7,351	8,184	10,074	12,516
Growth, %	5.5	11.3	23.1	24.2
Margin, %	17.0	17.0	18.0	18.8
Depreciation	-797	-834	-936	-1,018
EBIT	6,553	7,350	9,138	11,498
Growth, %	1.8	12.2	24.3	25.8
Margin, %	15.2	15.3	16.3	17.2
Interest paid	-45	-21	-21	-21
Other Non-Operating Income	1,735	2,299	2,260	2,313
Pre-tax profit	9,148	9,469	11,377	13,790
Tax provided	-1,289	-1,637	-2,275	-3,448
Net Profit	7,859	7,832	9,102	10,343
Growth, %	20.7	14.9	13.9	13.6
Net Profit (adjusted)	6,954	7,992	9,102	10,343
Wtd avg shares (m)	277	277	277	277

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Cash & bank	799	689	728	936
Debtors	9,355	10,433	12,130	14,407
Inventory	6,823	7,508	8,628	10,185
Loans & advances	7,471	7,589	7,940	8,445
Other current assets	73	81	95	112
Total current assets	24,521	26,301	29,521	34,086
Investments	4,650	4,450	4,657	4,757
Gross fixed assets	18,830	21,830	23,830	25,830
Less: Depreciation	-6,491	-7,324	-8,260	-9,278
Add: Capital WIP	1,706	1,706	1,706	1,706
Net fixed assets	14,046	16,212	17,276	18,258
Total assets	43,217	46,963	51,454	57,102
Current liabilities	8,520	8,909	9,146	9,997
Provisions	5,202	5,532	6,268	7,067
Total current liabilities	13,721	14,441	15,414	17,064
Non-current liabilities	631	631	631	631
Total liabilities	14,352	15,071	16,044	17,694
Paid-up capital	554	554	554	554
Reserves & surplus	28,311	31,338	34,856	38,853
Shareholders' equity	28,865	31,892	35,410	39,407
Total equity & liabilities	43,217	46,963	51,454	57,102

Source: Company, PhillipCapital India Research Estimates

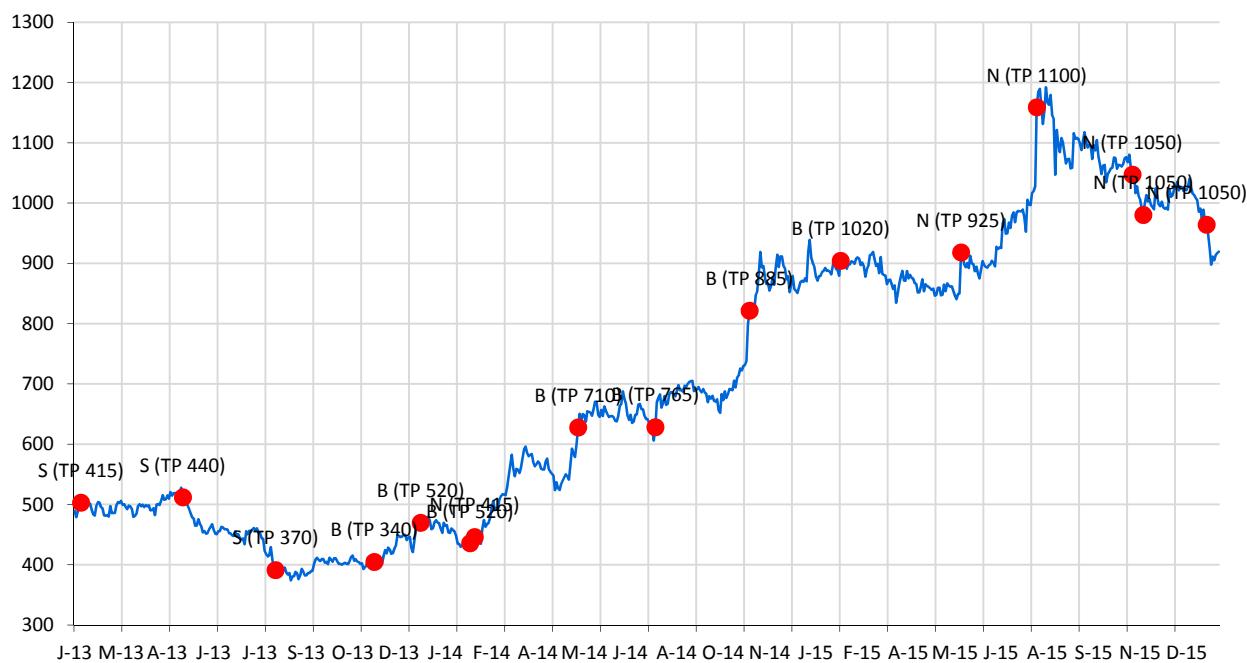
Cash Flow

	FY15	FY16e	FY17e	FY18e
Pre-tax profit	9,148	9,469	11,377	13,790
Depreciation	797	834	936	1,018
Chg in working capital	279	-1,170	-2,208	-2,707
Total tax paid	-1,124	-1,637	-2,275	-3,448
Cash flow from operating activities	9,101	7,495	7,830	8,654
Capital expenditure	-4,824	-3,000	-2,000	-2,000
Chg in investments	303	200	-207	-100
Cash flow from investing activities	-4,521	-2,800	-2,207	-2,100
Free cash flow	4,579	4,695	5,623	6,554
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-4,517	-4,805	-5,584	-6,345
Other financing activities	-127	0	0	0
Cash flow from financing activities	-4,645	-4,805	-5,584	-6,345
Net chg in cash	-66	-110	39	209

Valuation Ratios

	FY15	FY16e	FY17e	FY18e
Per Share data				
EPS (INR)	25.1	28.8	32.8	37.3
Growth, %	20.7	14.9	13.9	13.6
Book NAV/share (INR)	104.1	115.1	127.7	142.2
FDEPS (INR)	25.1	28.8	32.8	37.3
CEPS (INR)	24.7	32.4	36.2	41.0
CFPS (INR)	26.6	18.7	20.1	22.9
DPS (INR)	14.0	14.9	17.3	19.7
Return ratios				
Return on assets (%)	19.5	17.4	18.5	19.1
Return on equity (%)	24.1	25.1	25.7	26.2
Return on capital employed (%)	24.1	21.6	22.7	23.2
Turnover ratios				
Asset turnover (x)	1.6	1.5	1.6	1.7
Sales/Total assets (x)	1.1	1.1	1.1	1.2
Sales/Net FA (x)	3.6	3.2	3.3	3.8
Working capital/Sales (x)	0.4	0.3	0.4	0.3
Working capital days	128.4	126.8	128.0	126.7
Liquidity ratios				
Current ratio (x)	2.9	3.0	3.2	3.4
Quick ratio (x)	2.1	2.1	2.3	2.4
Interest cover (x)	145.0	350.0	435.2	547.5
Dividend cover (x)	1.8	1.9	1.9	1.9
Total debt/Equity (%)	-	-	-	-
Net debt/Equity (%)	(2.8)	(2.2)	(2.1)	(2.4)
Valuation				
PER (x)	35.8	31.1	27.3	24.0
Price/Book (x)	8.6	7.8	7.0	6.3
Yield (%)	1.6	1.7	1.9	2.2
EV/Net sales (x)	5.7	5.2	4.4	3.7
EV/EBITDA (x)	33.7	30.3	24.6	19.8
EV/EBIT (x)	37.8	33.7	27.1	21.5

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to } < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

Management

Vineet Bhatnagar (Managing Director)	(91 22) 2483 1919
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6667 9946
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

Research

Automobiles	
Dhawal Doshi	(9122) 6667 9769
Nitesh Sharma, CFA	(9122) 6667 9965
Agri Inputs	
Gauri Anand	(9122) 6667 9943
Banking, NBFCs	
Manish Agarwalla	(9122) 6667 9962
Pradeep Agrawal	(9122) 6667 9953
Paresh Jain	(9122) 6667 9948
Consumer	
Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Jubil Jain	(9122) 6667 9766
Cement	
Vaibhav Agarwal	(9122) 6667 9967
Economics	
Anjali Verma	(9122) 6667 9969
Engineering, Capital Goods	
Jonas Bhutta	(9122) 6667 9759
Hrishikesh Bhagat	(9122) 6667 9986

Infrastructure & IT Services	
Vibhor Singhal	(9122) 6667 9949
Logistics, Transportation & Midcap	
Vikram Suryavanshi	(9122) 6667 9951
Media	
Manoj Behera	(9122) 6667 9973
Metals	
Dhawal Doshi	(9122) 6667 9769
Yash Doshi	(9122) 6667 9987
Midcap	
Amol Rao	(9122) 6667 9952
Oil & Gas	
Sabri Hazarika	(9122) 6667 9756
Pharma & Speciality Chem	
Surya Patra	(9122) 6667 9768
Mehul Sheth	(9122) 6667 9996
Mid-Caps & Database Manager	
Deepak Agarwal	(9122) 6667 9944

Strategy	
Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Anindya Bhowmik	(9122) 6667 9764
Telecom	
Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Manoj Behera	(9122) 6667 9973
Technicals	
Subodh Gupta, CMT	(9122) 6667 9762
Production Manager	
Ganesh Deorukhkar	(9122) 6667 9966
Editor	
Roshan Sony	98199 72726
Sr. Manager – Equities Support	
Rosie Ferns	(9122) 6667 9971

Sales & Distribution

Ashvin Patil	(9122) 6667 9991
Shubhangi Agrawal	(9122) 6667 9964
Kishor Binwal	(9122) 6667 9989
Bhavin Shah	(9122) 6667 9974

Sales Trader	
Dilesh Doshi	(9122) 6667 9747
Suniil Pandit	(9122) 6667 9745
Execution	
Mayur Shah	(9122) 6667 9945

Corporate Communications

Zarine Damania	(9122) 6667 9976
----------------	------------------

Contact Information (Regional Member Companies)
SINGAPORE

Phillip Securities Pte Ltd
250 North Bridge Road, #06-00 RafflesCityTower,
Singapore 179101
Tel : (65) 6533 6001 Fax: (65) 6535 3834
www.phillip.com.sg

JAPAN

Phillip Securities Japan, Ltd
4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026
Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141
www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd.
15th Floor, VorawatBuilding, 849 Silom Road,
Silom, Bangkok, Thailand 10500 Thailand
Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921
www.phillip.co.th

UNITED STATES

Phillip Futures Inc.
141 W Jackson Blvd Ste 3050
The Chicago Board of TradeBuilding
Chicago, IL 60604 USA
Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur
Tel (60) 3 2162 8841 Fax (60) 3 2166 5099
www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZTower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia
Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809
www.phillip.co.id

FRANCE

King & Shaxson Capital Ltd.
3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France
Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017
www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 37, 530 Collins Street
Melbourne, Victoria 3000, Australia
Tel: (61) 3 9629 8380 Fax: (61) 3 9614 8309
www.phillipcapital.com.au

INDIA

PhillipCapital (India) Private Limited
No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013
Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 www.phillipcapital.in

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway Hong Kong
Tel (852) 2277 6600 Fax: (852) 2868 5307
www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd.
No 550 Yan An East Road, OceanTower Unit 2318
Shanghai 200 001
Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940
www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Ltd.
6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS
Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835
www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited
Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199
www.ashaphillip.net/home.htm

Disclosures and Disclaimers

PhillipCapital (India) Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equity Derivatives, and Private Client Group. This report has been prepared by Institutional Equities Group. The views and opinions expressed in this document may, may not match, or may be contrary at times with the views, estimates, rating, and target price of the other equity research groups of PhillipCapital (India) Pvt. Ltd.

This report is issued by PhillipCapital (India) Pvt. Ltd., which is regulated by the SEBI. PhillipCapital (India) Pvt. Ltd. is a subsidiary of Phillip (Mauritius) Pvt. Ltd. References to "PCIPL" in this report shall mean PhillipCapital (India) Pvt. Ltd unless otherwise stated. This report is prepared and distributed by PCIPL for information purposes only, and neither the information contained herein, nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment, or derivatives. The information and opinions contained in the report were considered by PCIPL to be valid when published. The report also contains information provided to PCIPL by third parties. The source of such information will usually be disclosed in the report. Whilst PCIPL has taken all reasonable steps to ensure that this information is correct, PCIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and PCIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily an indication of future performance.

This report does not regard the specific investment objectives, financial situation, and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax, and financial advisors and reach their own conclusions regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realised. Under no circumstances can it be used or considered as an offer to sell or as a solicitation of any offer to buy or sell the securities mentioned within it. The information contained in the research reports may have been taken from trade and statistical services and other sources, which PCIIL believe is reliable. PhillipCapital (India) Pvt. Ltd. or any of its group/associate/affiliate companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice.

Important: These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst(s) have no known conflict of interest and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific views or recommendations contained in this research report.

Additional Disclosures of Interest:

Unless specifically mentioned in Point No. 9 below:

1. The Research Analyst(s), PCIL, or its associates or relatives of the Research Analyst does not have any financial interest in the company(ies) covered in this report.
2. The Research Analyst, PCIL or its associates or relatives of the Research Analyst affiliates collectively do not hold more than 1% of the securities of the company (ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.
3. The Research Analyst, his/her associate, his/her relative, and PCIL, do not have any other material conflict of interest at the time of publication of this research report.
4. The Research Analyst, PCIL, and its associates have not received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in this report, in the past twelve months.
5. The Research Analyst, PCIL or its associates have not managed or co-managed in the previous twelve months, a private or public offering of securities for the company (ies) covered in this report.
6. PCIL or its associates have not received compensation or other benefits from the company(ies) covered in this report or from any third party, in connection with the research report.
7. The Research Analyst has not served as an Officer, Director, or employee of the company (ies) covered in the Research report.
8. The Research Analyst and PCIL has not been engaged in market making activity for the company(ies) covered in the Research report.
9. Details of PCIL, Research Analyst and its associates pertaining to the companies covered in the Research report:

Sr. no.	Particulars	Yes/No
1	Whether compensation has been received from the company(ies) covered in the Research report in the past 12 months for investment banking transaction by PCIL	No
2	Whether Research Analyst, PCIL or its associates or relatives of the Research Analyst affiliates collectively hold more than 1% of the company(ies) covered in the Research report	No
3	Whether compensation has been received by PCIL or its associates from the company(ies) covered in the Research report	No
4	PCIL or its affiliates have managed or co-managed in the previous twelve months a private or public offering of securities for the company(ies) covered in the Research report	No
5	Research Analyst, his associate, PCIL or its associates have received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in the Research report, in the last twelve months	No

Independence: PhillipCapital (India) Pvt. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and PhillipCapital (India) Pvt. Ltd does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. PhillipCapital (India) Pvt. Ltd is not a market maker in the securities mentioned in this research report, although it, or its affiliates/employees, may have positions in, purchase or sell, or be materially interested in any of the securities covered in the report.

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic, or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that PCIPL and the research analyst believe to be reliable, but neither PCIPL nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material, and are subject to change without notice. Furthermore, PCIPL is under no obligation to update or keep the information current. Without limiting any of the foregoing, in no event shall PCIPL, any of its affiliates/employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind including but not limited to any direct or consequential loss or damage, however arising, from the use of this document.

Copyright: The copyright in this research report belongs exclusively to PCIPL. All rights are reserved. Any unauthorised use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without the PCIPL's prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

Caution: Risk of loss in trading/investment can be substantial and even more than the amount / margin given by you. The recipient should carefully consider whether trading/investment is appropriate for the recipient in light of the recipient's experience, objectives, financial resources and other relevant circumstances. PCIPL and any of its employees, directors, associates, group entities, or affiliates shall not be liable for losses, if any, incurred by the recipient. The recipient is further cautioned that trading/investments in financial markets are subject to market risks and are advised to seek trading/investment advice before investing. There is no guarantee/assurance as to returns or profits or capital protection or appreciation. PCIPL and any of its employees, directors, associates, group entities, affiliates are not inducing the recipient for trading/investing in the financial market(s). Trading/Investment decision is the sole responsibility of the recipient.

For U.S. persons only: This research report is a product of PhillipCapital (India) Pvt Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S.-regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances, and trading securities held by a research analyst account.

This report is intended for distribution by PhillipCapital (India) Pvt Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated, and/or transmitted onward to any U.S. person, which is not a Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, PhillipCapital (India) Pvt Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer

PhillipCapital (India) Pvt. Ltd.

Registered office: No. 1, 18th Floor, Urmi Estate, 95 GanpatraoKadamMarg, Lower Parel West, Mumbai 400013