

CMP: INR 3,509

Rating: Buy

Target Price: INR 4,377

| Stock Info | |
|--------------------------|--------------------|
| BSE | 533179 |
| NSE | PERSISTENT |
| Bloomberg | PERSISTENT IN |
| Reuters | PERSISTENT.BO |
| Sector | Computers-Software |
| Face Value (INR) | 10 |
| Equity Capital (INR mn) | 770 |
| Mkt Cap (INR mn) | 54,252 |
| 52w H/L (INR) | 4,490/2,113 |
| Avg Yearly Vol (in 000') | 762 |

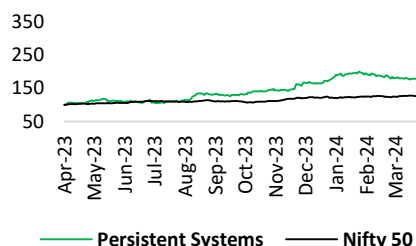
Shareholding Pattern %

(As on Mar, 2024)

| | |
|-----------------|-------|
| Promoters | 31.02 |
| FII | 24.96 |
| DII | 25.87 |
| Public & Others | 18.14 |

| | 1m | 3m | 12m |
|--------------------|-------|-------|-------|
| Persistent Systems | -10.6 | -10.0 | 65.6 |
| Nifty 50 | 0.78 | 3.23 | 26.35 |

Persistent Systems Vs Nifty 50



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Persistent system reported top line and margin are in line with our estimates. Reported revenue of USD 311 Mn (up 3.4% QoQ/13.2%YoY) in-line with our estimate of \$310 Mn. Reported revenue of INR 25,905 Mn up 3.7% QoQ/ 14.9% YoY above with our estimate of INR 25,700 Mn. The growth was led by Healthcare & Life Sciences was up (41.5%YoY/15.2% QoQ) owing to large deal wins in this segment followed by BFSI (up 9.2%YoY/2.2% QoQ) and software (7.9% YoY). EBIT margin contraction by 8bps QoQ/ (down 92bps YoY) at 14.45% against with our estimates of 14.7%. Consolidated PAT stood at INR 3,153 Mn, up by 10.2% QoQ/25.4% YoY above with our estimate of INR 2,925 Mn. The order booking for Q4FY24 was at \$447.7M vs in Q3FY24, was at \$ 521 mn in TCV (14.1% de-growth QoQ) and at \$316.8 vs \$392.1 mn in ACV terms (de-growth of 19.2% QoQ).TCV (New) grew by 8.9% to \$302 Mn and ACV (New) up by 0.9% to \$185 Mn. DSO down by 3 to 63 Days. Effort mix: Global Delivery Centers revenue mix increased by 100 bps QoQ to 14.8%. Client Engagement Size increased by 1 in \$30M+, decreased by 2 in \$20M – \$30M, increased by 2 in \$10M – \$20M, increased by 1 \$5M – \$10M. Net employee increased by 514 employees in Q4FY24 to close at 23,850 employees. LTM attrition declined by 40 bps QoQ to 11.5%. Employee utilization decreased by 150 bps QoQ to 80%.The company EPS stood at INR 20.7 vs INR 18.92 in Q3FY24 (INR 16.8 in Q4FY23).

EBIT Margin guidance below expectation: In Q4, the EBIT margin steady at 14.45%, reflecting stability compared to the previous quarter. Factors such as larger vendor consolidation deals and increased on-site presence influenced this margin. However, one-time transition costs, lower utilization, and higher travel expenses impacted the EBIT. Over the next year, amidst a challenging macro environment, the focus remains on sustaining top-quartile growth while preserving current margins.

Emerging as a Challenger in Key Sectors: In BFSI, healthcare life sciences, and technology sectors, PSL is emerging as a strong competitor to larger firms. Dissatisfaction among major clients with their current service providers is creating opportunities for PSL. This has led to significant account wins and ramp-ups, particularly in BFSI, where PSL is scaling up operations after securing sizable clients.

Valuations

PSL aims to enhance its margins by 200 to 300bps over the next three years. It saw a 50bps decline in margin in FY24, the impact was mitigated by one-off gains from the reversal of acquisition-related earn outs in 4QFY24, amounting to ~286bps. To achieve this target, PSL plans to invest in sales and marketing, enhance execution with a utilization target of 83-84%, provide upskilling opportunities in areas such as Generative AI and next-gen technologies. PSL could be among the top quartile performers in terms of revenue and earnings growth in FY25, while remain committed to margin improvement by 200-300bps over the next 2-3 years.

Hence, we value the Persistent system at a PE of 35x to its FY27E EPS of 125.1, which yields a target price of INR 4,377 per share. We upgrade our rating to Buy on the stock from Reduce earlier.

Exhibit 2: Q4FY24 - Quarterly Performance (Consolidated)

| INR Mn (consolidated) | Q4FY24 | Q3FY24 | Q4 FY23 | Q-o-Q | Y-o-Y |
|-----------------------|----------|----------|----------|---------|---------|
| Revenue (Mn USD) | 311 | 301 | 275 | 3.4% | 13.2% |
| Net Revenue | 25,905 | 24,982 | 22,545 | 3.7% | 14.9% |
| Employee Cost | 18,936 | 18,096 | 15,787 | 4.6% | 19.9% |
| Other Expenses | 2,426 | 2,468 | 2,595 | -1.7% | -6.5% |
| EBITDA | 4,544 | 4,418 | 4,163 | 2.8% | 9.1% |
| EBITDA Margin % | 17.54% | 17.69% | 18.47% | -15bps | -93bps |
| Depreciation | 799 | 787 | 697 | 1.5% | 14.6% |
| EBIT | 3,744 | 3,631 | 3,466 | 3.1% | 8.0% |
| EBIT Margin % | 14.45% | 14.53% | 15.37% | -8bps | -92bps |
| Other Income | 308 | 383 | 88 | -19.6% | 248.7% |
| Finance Cost | 97 | 121 | 148 | -19.6% | -34.3% |
| Exceptional Item | - | - | - | - | - |
| PBT | 3,954.92 | 3,893.01 | 3,406.03 | 1.6% | 16.1% |
| Tax Expense | 801.71 | 1,031.67 | 891 | -22.3% | -10.0% |
| Effective Tax Rate % | 20.3% | 26.5% | 26.2% | -623bps | -588bps |
| PAT | 3,153.21 | 2,861.34 | 2,515 | 10.2% | 25.4% |
| MI & Associates | - | - | - | - | - |
| Consolidated PAT | 3,153.21 | 2,861.34 | 2,515.31 | 10.2% | 25.4% |
| PAT Margin % | 80.00% | 81.50% | 11.2% | -150bps | 6884bps |
| EPS (INR) | 20.73 | 18.92 | 16.83 | 9.6% | 23.2% |

Source: Arianth Research, Company Filings

Q4FY24 Conference call Highlights:

In FY25, seeing a demand environment similar to the last 2-3 quarters, remaining unchanged, and are preparing for a status quo in demand dynamics. Regardless of discretionary and non-discretionary factors, the company isn't waiting for demand to materialize; it will perform wherever opportunities arise

Revenue Growth: On YoY this is purely organic growth, the company did not have any acquisitions through the financial year.

Margin: The EBIT margin remained unchanged compared to the Q3FY24. Factors contributing to this stability included a 200bps increase from higher subcontracting, an 110bps increase due to deal ramp-ups (unlike other sectors experiencing reductions), a 50bps decrease due to lower utilization, and a 40bps increase due to higher travel costs. However, these impacts were mostly balanced out by the reversal of earn outs, amounting to 286 bps of sales, which was a one-time event. Additionally, there was a 60bps increase in third-party expenses compared to the Q3FY24.

M&A: Company focus Healthcare Life Sciences, BFSI, & Data-AI, with a particular interest in the payer-provider ecosystem within Healthcare and targeted segments within BFSI.

Geographically: Exploring opportunities in both Western and Eastern Europe, emphasizing Western Europe for business and Eastern Europe for delivery capabilities. In the next several quarters, company do hope to turn the corner on Europe in terms of growth.

Client: Healthy growth across client buckets: top 5 up 7.9% QoQ, top 10 up 5.4%, top 20 up 2.9%; top 50 portfolio grew 4.3% in Q4, surpassing company's overall revenue growth, with 178 customers exceeding US dollar -- in trainee 12M revenue. New customers in \$30M+, \$10M-\$20M, and \$5M-\$10M buckets show scaling potential. Top 10 customers contributed 40% Q4FY24, driven by growth in healthcare life sciences and BFSI; North America revenue grew 16.8% YoY in USD terms for FY24, surpassing company average.

Enterprise: Company is accelerating Gen-AI-powered transformation, investing in and enhancing Gen-AI hub for faster, more efficient and secure experiences at scale, anchored in Responsible AI principles. Enterprises can adopt Gen-AI across large language models and beyond.

Headcounts: Most of the headcount increase in Q4FY24 came from lateral hires. On-site hiring was linked to revenue ramp-up, while offshore hiring is towards revenue ramp-up as well as build-up for capacity for future ramp-ups.

ESG: Company is committed to set near and long-term company-wide emission reductions in line with science-based Net-Zero with the SBT.

Persistent was chosen by a prominent fintech firm in the UK to develop the next-gen banking platform, targeting neo banks and building societies in the UK and emerging markets worldwide. Leveraging Persistent's digital banking solution and BFSI domain expertise, the engagement aims to enhance customer revenue through new acquisitions.

| Exhibit 3: Business Matrix | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | Q1-FY23 | Q2-FY23 | Q3-FY23 | Q4-FY23 | Q1-FY24 | Q2-FY24 | Q3-FY24 | Q4-FY24 |
| Revenue from Operations, USD M | 241.5 | 255.6 | 264.4 | 274.6 | 282.9 | 291.7 | 300.6 | 310.9 |
| % Q - o -Q growth | 11.1% | 5.8% | 3.4% | 3.9% | 3.0% | 3.1% | 3.1% | 3.4% |
| % Y - o -Y growth | 44.8% | 40.2% | 32.8% | 26.4% | 17.1% | 14.1% | 13.7% | 13.2% |
| Revenue from Operations, INR M | 18781 | 20486 | 21694 | 22545 | 23212 | 24117 | 24982 | 25905 |
| % Q - o -Q growth | 14.67% | 9.08% | 5.90% | 3.92% | 2.96% | 3.90% | 3.59% | 3.70% |
| % Y - o -Y growth | 52.70% | 51.61% | 45.43% | 37.65% | 23.59% | 17.72% | 15.16% | 14.90% |
| Segment Revenue Mix | Q1-FY23 | Q2-FY23 | Q3-FY23 | Q4-FY23 | Q1-FY24 | Q2-FY24 | Q3-FY24 | Q4-FY24 |
| BFSI | 33.70% | 32.80% | 32.60% | 32.30% | 33.30% | 32.30% | 31.20% | 30.70% |
| Healthcare & Life Sciences | 19.90% | 19.70% | 19.60% | 19.70% | 18.60% | 19.30% | 21.80% | 24.20% |
| Software, Hi -Tech & Emerging Industries | 46.40% | 47.50% | 47.80% | 48.00% | 48.10% | 48.40% | 47.00% | 45.10% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Geography Revenue Mix | Q1-FY23 | Q2-FY23 | Q3-FY23 | Q4-FY23 | Q1-FY24 | Q2-FY24 | Q3-FY24 | Q4-FY24 |
| North America | 78.40% | 78.60% | 77.40% | 77.90% | 79.20% | 79.20% | 79.70% | 80.10% |
| Europe | 8.50% | 8.30% | 9.00% | 10.30% | 9.70% | 9.50% | 8.90% | 7.80% |
| India | 11% | 12% | 12.00% | 10.00% | 9.90% | 9.70% | 10.00% | 10.10% |
| ROW | 1.80% | 1.60% | 1.60% | 1.80% | 1.20% | 1.60% | 1.40% | 2.00% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Client Contribution | Q1-FY23 | Q2-FY23 | Q3-FY23 | Q4-FY23 | Q1-FY24 | Q2-FY24 | Q3-FY24 | Q4-FY24 |
| Top 1 | 11.7% | 8.7% | 7.40% | 9.30% | 10.20% | 10.20% | 9.30% | 8.00% |
| Top 5 | 30.8% | 26.9% | 24.70% | 26.50% | 27.90% | 28.30% | 28.00% | 29.20% |
| Top 10 | 40.7% | 36.7% | 35.00% | 37.40% | 39.60% | 39.50% | 39.30% | 40.00% |
| Top 20 | 51.2% | 48.4% | 47.80% | 47.90% | 50.40% | 50.40% | 51.40% | 51.10% |
| Top 50 | 66.1% | 64.0% | 63.9% | 64.4% | 66.1% | 66.1% | 66.7% | 67.3% |
| Revenue by Delivery Centers | Q1-FY23 | Q2-FY23 | Q3-FY23 | Q4-FY23 | Q1-FY24 | Q2-FY24 | Q3-FY24 | Q4-FY24 |
| Global Development Centers | 14.7% | 14.4% | 14% | 13% | 13% | 12.7% | 13.8% | 14.8% |
| India | 56.5% | 57.4% | 57.3% | 60.4% | 86.9% | 87.3% | 86.2% | 85.2% |
| Client Billed | 340 | 345 | 344 | 359 | 367 | 375 | 375 | 382 |
| Client Engagement Size | Q1-FY23 | Q2-FY23 | Q3-FY23 | Q4-FY23 | Q1-FY24 | Q2-FY24 | Q3-FY24 | Q4-FY24 |
| \$30M+ | 3 | 3 | 5 | 5 | 5 | 6 | 5 | 6 |
| \$20M – \$30M | 1 | 3 | 2 | 4 | 5 | 3 | 6 | 4 |
| \$10M – \$20M | 7 | 6 | 9 | 8 | 7 | 7 | 5 | 7 |
| \$5M – \$10M | 15 | 18 | 18 | 17 | 21 | 23 | 22 | 23 |
| \$1M – \$5M | 104 | 116 | 118 | 126 | 129 | 136 | 138 | 138 |
| People Numbers | Q1-FY23 | Q2-FY23 | Q3-FY23 | Q4-FY23 | Q1-FY24 | Q2-FY24 | Q3-FY24 | Q4-FY24 |
| Technical | 20144 | 20941 | 21033 | 21295 | 21511 | 21236 | 21738 | 22224 |
| Sales and Business Development | 367 | 387 | 405 | 414 | 428 | 443 | 465 | 484 |
| Others | 1127 | 1148 | 1160 | 1180 | 1191 | 1136 | 1133 | 1142 |
| Total | 21638 | 22476 | 22598 | 22889 | 23130 | 22815 | 23336 | 23850 |
| Attrition Rate | Q1-FY23 | Q2-FY23 | Q3-FY23 | Q4-FY23 | Q1-FY24 | Q2-FY24 | Q3-FY24 | Q4-FY24 |
| TTM Basis | 24.80% | 23.70% | 21.60% | 19.80% | 15.50% | 13.50% | 11.90% | 11.50% |
| DSO | Q1-FY23 | Q2-FY23 | Q3-FY23 | Q4-FY23 | Q1-FY24 | Q2-FY24 | Q3-FY24 | Q4-FY24 |
| Days | 60 | 60 | 67 | 68 | 67 | 66 | 66 | 63 |

Source: Arianth Research, Company Filings

Exhibit 4: In line top line

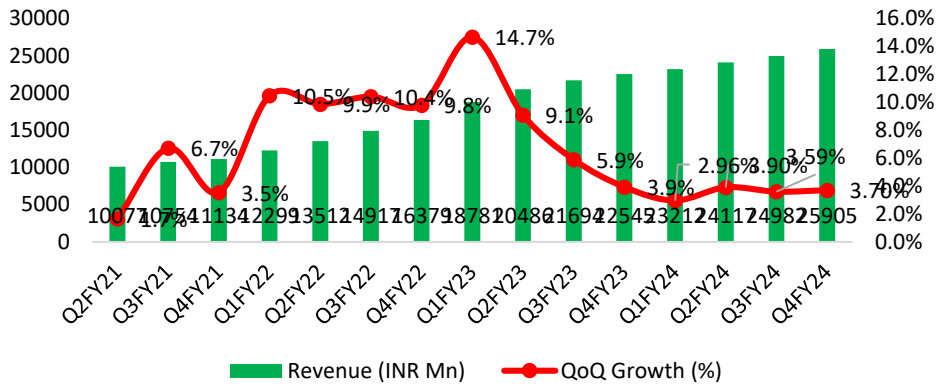


Exhibit 5: In line top line

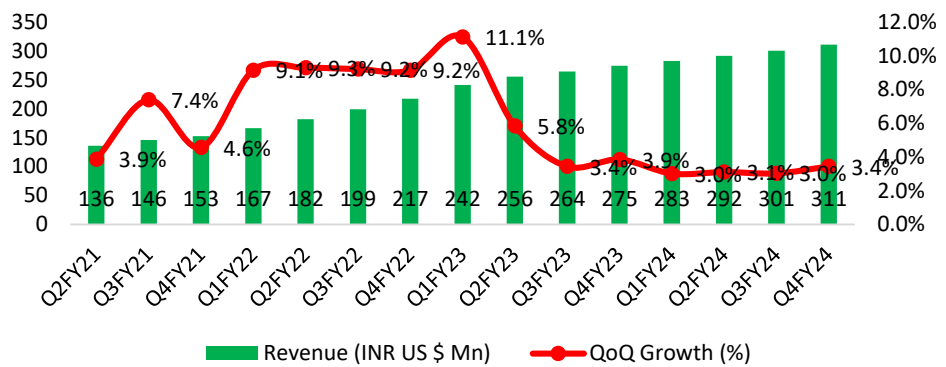


Exhibit 6: PSL remain committed to goal of improving EBIT margins by 200-300 bps over the next 3 years.

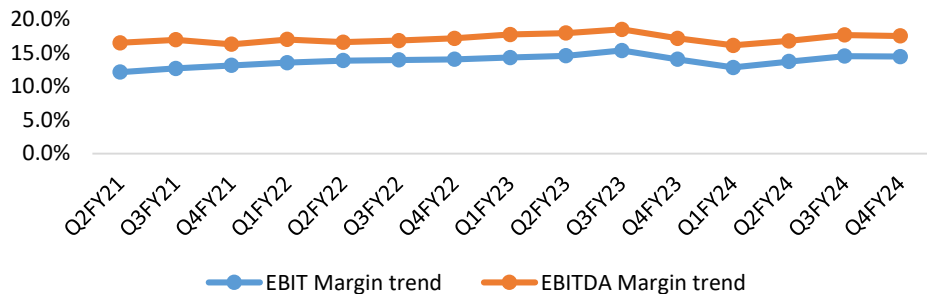
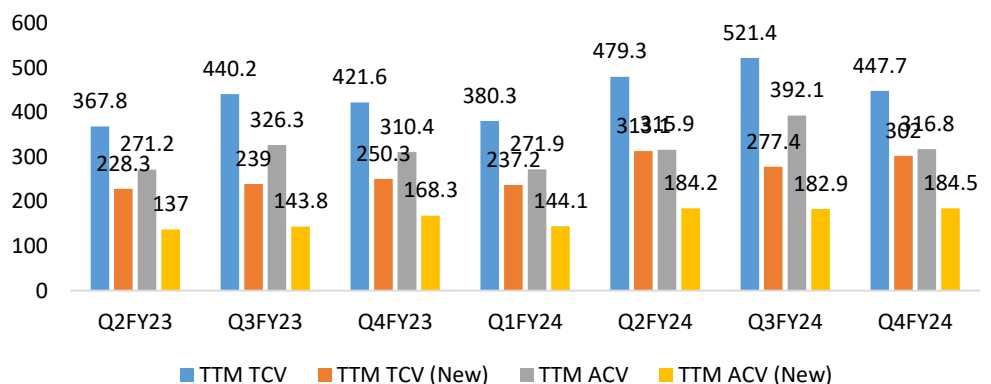


Exhibit 7: Strong deal wins



Source: Arianth Research, Company Filings

Key Financials

| Income Statement | | | | | | Balance Sheet | | | | | |
|--|----------------|---------------|---------------|---------------|---------------|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Income Statement (INR Mn) | FY23 | FY24 | FY25E | FY26E | FY27E | Balance Sheet (INR Mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
| Revenues (US\$ mn) | 1036 | 1186 | 1343 | 1559 | 1768 | Share Capital | 764 | 770 | 770 | 770 | 770 |
| Change (%) | 35.3% | 14.5% | 13.3% | 16.1% | 13.3% | Reserves & Surplus | 38,887 | 48,807 | 59,071 | 72,034 | 87,403 |
| Revenues | 83,506 | 98,216 | 113,256 | 133,637 | 153,421 | Net Worth | 39,651 | 49,577 | 59,842 | 72,805 | 88,173 |
| Change (%) | 46.2% | 17.6% | 15.3% | 18.0% | 14.8% | Loan Funds | 4,285 | 2,073 | 2,073 | 2,073 | 2,073 |
| Total Expenses | 68,315 | 89,594 | 93,425 | 109,449 | 124,578 | MI, Deferred Tax & other Liabilities | - | - | - | - | - |
| EBITDA | 15,191 | 17,243 | 19,831 | 24,188 | 28,843 | Capital Employed | 43,936 | 51,650 | 61,915 | 74,878 | 90,246 |
| EBITDA Margin (%) | 18.2% | 17.6% | 17.5% | 18.1% | 18.8% | Application of Funds | - | - | - | - | - |
| Depreciation | 2,719 | 3,094 | 3,511 | 3,742 | 4,296 | Net Block | 11,605 | 14,395 | 18,194 | 21,992 | 25,789 |
| EBIT | 12,472 | 14,149 | 16,320 | 20,446 | 24,547 | CWIP | 161 | 335 | 335 | 335 | 335 |
| EBIT Margin (%) | 14.9% | 14.4% | 14.4% | 15.3% | 16.0% | Other Non-current Assets | 17,076 | 16,901 | 16,901 | 16,901 | 16,901 |
| Other Income | 1,003 | 1,129 | 1,166 | 1,204 | 1,244 | Deferred Tax Assets | 1,129 | 1,360 | 1,360 | 1,360 | 1,360 |
| Interest | - | - | - | - | - | Net Fixed Assets | 29,971 | 32,991 | 36,790 | 40,588 | 44,385 |
| PBT | 12,882 | 15,278 | 17,486 | 21,650 | 25,791 | Investments | 6,396 | 8,266 | 8,266 | 8,266 | 8,266 |
| Extra-ordinary Provision for export incentives | 473.40 | - | - | - | - | Debtors | 15,830 | 17,491 | 20,170 | 23,799 | 27,323 |
| PBT after ext-ord. | 12,409 | 15,278 | 17,486 | 21,650 | 25,791 | Inventories | - | - | - | - | - |
| Tax | 3,198 | 3,541 | 4,546 | 5,478 | 6,525 | Cash & Bank Balance | 9,033 | 10,229 | 18,865 | 29,765 | 43,021 |
| Rate (%) | 25.8% | 23.2% | 26.0% | 25.3% | 25.3% | Loans & Advances & other CA | 8,562 | 11,515 | 11,515 | 11,515 | 11,515 |
| PAT | 9,210.9 | 11,737 | 12,939 | 16,173 | 19,266 | Total Current Assets | 36,569 | 42,946 | 50,550 | 65,080 | 81,859 |
| MI & Associates | - | - | - | - | - | Current Liabilities | 23,978 | 21,976 | 29,813 | 35,178 | 40,386 |
| Consolidated PAT | 9,210.9 | 11,737 | 12,939 | 16,173 | 19,266 | Provisions | 5,022 | 3,878 | 3,878 | 3,878 | 3,878 |
| | | | | | | Net Current Assets | 7,569 | 17,092 | 16,860 | 26,025 | 37,596 |
| | | | | | | Total Assets | 43,936 | 51,650 | 61,915 | 74,878 | 90,246 |

| Key Ratios | | | | | | Cash Flow Statement | | | | | |
|---------------------------|-------|-------|-------|-------|-------|--|-----------------|----------------|-----------------|-----------------|-----------------|
| Key Ratios (INR Mn) | FY23 | FY24 | FY25E | FY26E | FY27E | Cash Flow Statement (INR Mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
| Per share (INR) | | | | | | PBT | 12,409 | 14,476 | 17,486 | 21,650 | 25,791 |
| EPS | 123.7 | 144.9 | 84.0 | 105.0 | 125.1 | Depreciation | 2,719 | 3,094 | 3,511 | 3,742 | 4,296 |
| CEPS | 77.4 | 91.1 | 106.8 | 129.3 | 152.9 | Interest & others | (1,003) | (1,129) | (1,166) | (1,204) | (1,244) |
| BVPS | 257.4 | 321.8 | 388.5 | 472.6 | 572.4 | Cash flow before WC changes | 14,125 | 16,441 | 19,831 | 24,188 | 28,843 |
| DPS | 50.0 | 26.0 | 35.0 | 42.0 | 51.0 | (Inc)/dec in working capital | (267) | (8,213) | 5,158 | 1,735 | 1,685 |
| Div. Payout (%) | 83.6% | 36.6% | 41.7% | 40.0% | 40.8% | Operating CF after WC changes | 13,858 | 8,228 | 24,989 | 25,924 | 30,528 |
| Valuation (x) | | | | | | Less: Taxes | (3,198) | (3,541) | (4,546) | (5,478) | (6,525) |
| P/E | 28.4 | 24.2 | 41.8 | 33.4 | 28.1 | Operating Cash Flow | 10,660 | 4,687 | 20,443 | 20,446 | 24,003 |
| P/CEPS | 45.3 | 38.5 | 32.9 | 27.1 | 22.9 | (Inc)/dec in F.A + CWIP | (8,123) | 11,796 | 7,114 | 7,115 | 7,116 |
| P/BV | 13.6 | 10.9 | 9.0 | 7.4 | 6.1 | (Pur)/sale of investment | 1,828.97 | (1,870.02) | - | - | - |
| EV/EBITDA | 35.3 | 30.9 | 26.4 | 21.2 | 17.3 | Cash Flow from Investing | (10,604) | (7,633) | (10,446) | (10,445) | (10,444) |
| Dividend Yield (%) | 1.4% | 0.7% | 1.0% | 1.2% | 1.5% | Free Cash Flow (FCF) | 6,339 | 1,896 | 16,644 | 16,648 | 20,206 |
| Return Ratio (%) | | | | | | Loan raised/(repaid) | (40.25) | (2,211.91) | - | - | - |
| EBITDA Margin | 18.2% | 17.6% | 17.5% | 18.1% | 18.8% | Equity raised | - | 6.00 | - | - | - |
| EBIT Margin | 14.9% | 14.4% | 14.4% | 15.3% | 16.0% | Interest & others | 2,083 | 10,432 | 2,722 | 4,982 | 3,781 |
| PAT Margin | 11.0% | 11.1% | 11.4% | 12.1% | 12.6% | Dividend | (2,981) | (4,084) | (4,084) | (4,084) | (4,084) |
| ROE | 23.2% | 22.1% | 21.6% | 22.2% | 21.9% | Cash Flow from Financing Activities | (938) | 4,143 | (1,361) | 899 | (303) |
| ROCE | 28.4% | 27.4% | 26.4% | 27.3% | 27.2% | Net inc / (dec) in cash | (882) | 1,196 | 8,636 | 10,900 | 13,256 |
| Leverage Ratio (x) | | | | | | Opening balance of cash | 9,145 | 9,033 | 10,229 | 18,865 | 29,765 |
| Total D/E | 0.002 | 0.002 | 0.002 | 0.002 | 0.002 | Closing balance of cash | 9,033 | 10,229 | 18,865 | 29,765 | 43,021 |
| Net D/E | -0.1 | -0.2 | -0.3 | -0.4 | -0.5 | | | | | | |
| Turnover Ratios | | | | | | | | | | | |
| Asset Turnover (x) | 1.9 | 1.9 | 1.8 | 1.8 | 1.7 | | | | | | |
| Receivable Days | 69 | 65 | 65 | 65 | 65 | | | | | | |
| Payable days | 127 | 96 | 96 | 96 | 96 | | | | | | |

Source: Arianth Research, Company Filings,

Arihant Research DeskEmail: research@arihantcapital.com

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| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

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