

**CMP: INR 299**

**Rating: BUY**

**Target Price: INR 446**

**Stock Info**

BSE	513519
NSE	PITTIENG
Bloomberg	PITTIENG:IN
Reuters	PITE.NS
Sector	Capital Goods
Face Value (INR)	5
Equity Capital (INR cr)	16
Mkt Cap (INR cr)	959
52w H/L (INR)	375 / 194
Avg Yearly Volume (in 000')	197

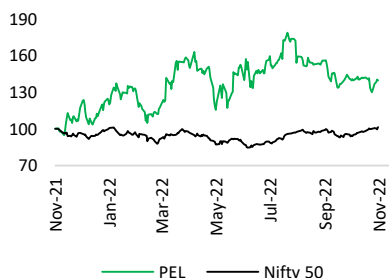
**Shareholding Pattern %**

(As on Sep, 2022)

Promoters	59.29
DII	2.90
FII	0.05
Public & Others	37.77

Stock Performance (%)	3m	6m	12m
PEL	-9.4	-17.6	39.6
NIFTY	3.9	13.5	1.4

**PEL Vs Nifty**



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Pitti Engineering Ltd reported strong numbers, Q2FY23 revenue stood at INR 304cr (+25.6% YoY/-2.1% QoQ) vs our estimates of INR 306cr. Gross Profit stood at INR 81Cr (+11.6% YoY/+2.7% QoQ), Gross margins improved by 123 bps QoQ (down by 334 bps YoY) to 26.7% vs 30.1% & 25.5% in Q2FY22 & Q1FY23 respectively. The raw material cost in terms of sales stood at 73.3% vs 69.9% & 74.5% in Q2FY22 & Q1FY23 respectively. EBITDA stood at INR 37cr (+4.3% YoY/+3.1% QoQ); beats our estimates of INR 35cr. EBITDA margin improved by 60 bps QoQ (down by 245 bps YoY) to 12% vs 14.5% & 11.4% in Q2FY22 & Q1FY23 respectively. PAT stood at INR 10cr (-21.6% YoY/-13.2% QoQ); in-line with our estimates of INR 10cr. PAT margin contracted by 43 bps QoQ (down by 201 bps YoY) to 3.3% vs 5.3% & 3.8% in Q2FY22 & Q1FY23 respectively.

**Key Highlights**

**Capacity is expected to complete by Q1FY24:** The total sheet metal capacity stood at 50,200 tonnes per annum. The construction is being delayed due to monsoons. The total Capex is INR 100cr for FY23. Out of ~INR 100cr, ~INR 50cr Capex is already done and ~INR 50cr is expected in H2FY23. ~INR 50cr Capex will be utilized for the construction of the shed and advances for machines. The advances will be given from Jan onwards. The machines are expected to install from may onwards. The machine installation will take 1 to 1.5 months. The company is expected to reach 72,000 tonnes per annum by the end of Q1FY24. The machining hours stood at 4,03,200 hours. The company is expected to reach 6,48,000 machining hours going forward.

**Exports witnessed strong growth due to strong demand:** In Q2FY23, exports revenue grew 72.9% YoY (+36.7% QoQ) to INR 112cr, due to strong demand from coal and oil companies. The company has exported to North America and South America. The domestic and export revenue mix stood at 63:37 vs 73:27 in Q2FY22.

**Improvement in Sales & EBITDA realization per tonne:** In Q2FY23, Sales realization per tonne stood at INR 3,45,294 (+22.7% YoY/-2.7% QoQ), driven by increase in sales of assembled and value added components. The assembled & value added and loose lamination mix stood at 76:24 vs 70:30 in Q2FY22. EBITDA per tonne realization grew by 2% YoY (+2.4% QoQ) to INR 41,490, driven by softening of raw material prices.

**Automotive segment is expected to pick up backed by EV and IC engines:** In Q1FY23, The company has entered into a new end-user application segment automotive. The company supplies components for IC engines and electrical vehicles. The revenue is expected to pick up from Q3FY23 onwards. The new automotive segment revenue is expected to be around INR 40cr by FY23 and INR 90 to INR 100cr revenue is expected by FY24.

**Outlook & Valuation:** PEL is expected to complete the capex of 72,000 MTPA by Q1FY24, increase in realisation due to higher assembled and value added components and softening of RM costs, strong demand from railways and automotive segment, strong order execution, debt reduction and getting new orders from customers will be the key triggers. PEL has integrated manufacturing plants with cutting edge technology, differentiated product offerings, marquee clients and diversified end industries would lead the growth going forward. Based on DCF, we have a "BUY" rating with a Target Price of INR 446 per share; an upside of 49.1%.

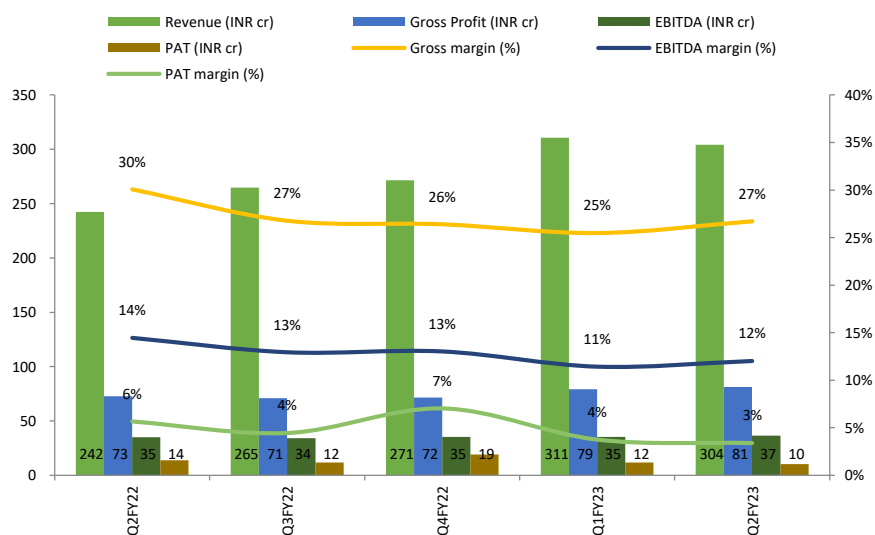
Q2FY23 Results

Income statement summary

Particular (INR cr)	Q2FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)
Revenue	242	311	304	25.6%	-2.1%
Net Raw Materials	169	231	223	31.6%	-3.7%
Employee Cost	21	21	23	13.0%	8.4%
Other Expenses	17	22	22	24.8%	-3.5%
<b>EBITDA</b>	<b>35</b>	<b>35</b>	<b>37</b>	4.3%	3.1%
<b>EBITDA Margin (%)</b>	<b>14.5%</b>	<b>11.4%</b>	<b>12.0%</b>	<b>-245 bps</b>	<b>+60 bps</b>
Depreciation	9	10	11	13.9%	3.2%
Interest expense	8	11	12	46.9%	12.4%
Other income	0.3	0.5	0.4	37.7%	-26.2%
<b>Profit before tax</b>	<b>18</b>	<b>15</b>	<b>14</b>	-19.8%	-4.6%
Taxes	5	3	4	-15.0%	25.9%
<b>PAT</b>	<b>13</b>	<b>12</b>	<b>10</b>	-21.6%	-13.2%
<b>PAT Margin</b>	<b>5.3%</b>	<b>3.8%</b>	<b>3.3%</b>	<b>-201 bps</b>	<b>-43 bps</b>
Other Comprehensive income	0.8	0.0	0.2		
<b>Net profit</b>	<b>14</b>	<b>12</b>	<b>10</b>	-24.6%	-11.5%
<b>Net profit Margin (%)</b>	<b>5.7%</b>	<b>3.8%</b>	<b>3.4%</b>	<b>-227 bps</b>	<b>-36 bps</b>
<b>EPS (INR)</b>	<b>4.0</b>	<b>3.6</b>	<b>3.2</b>		

Source: Company Reports, Aриhant Capital Research

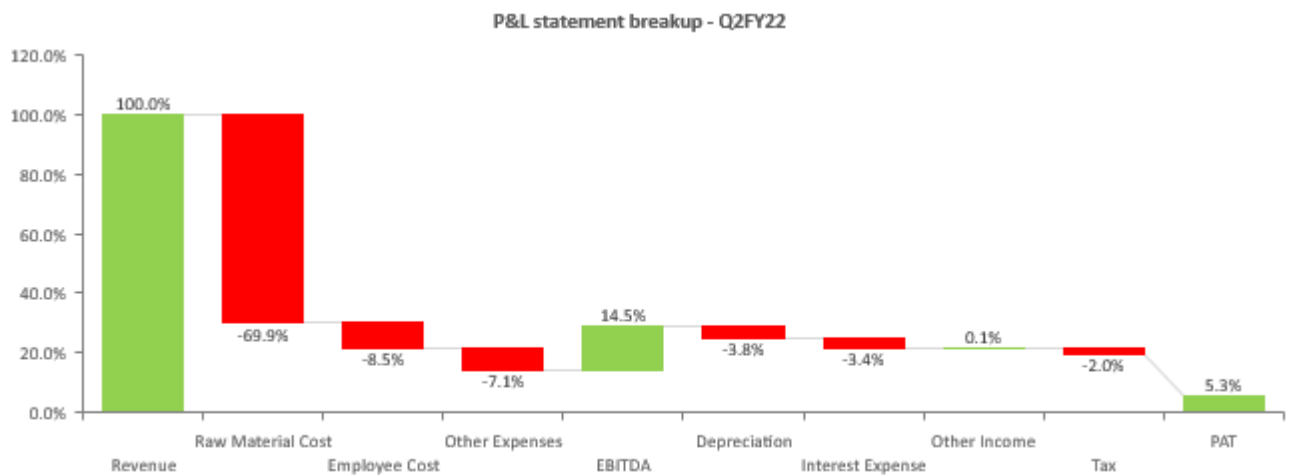
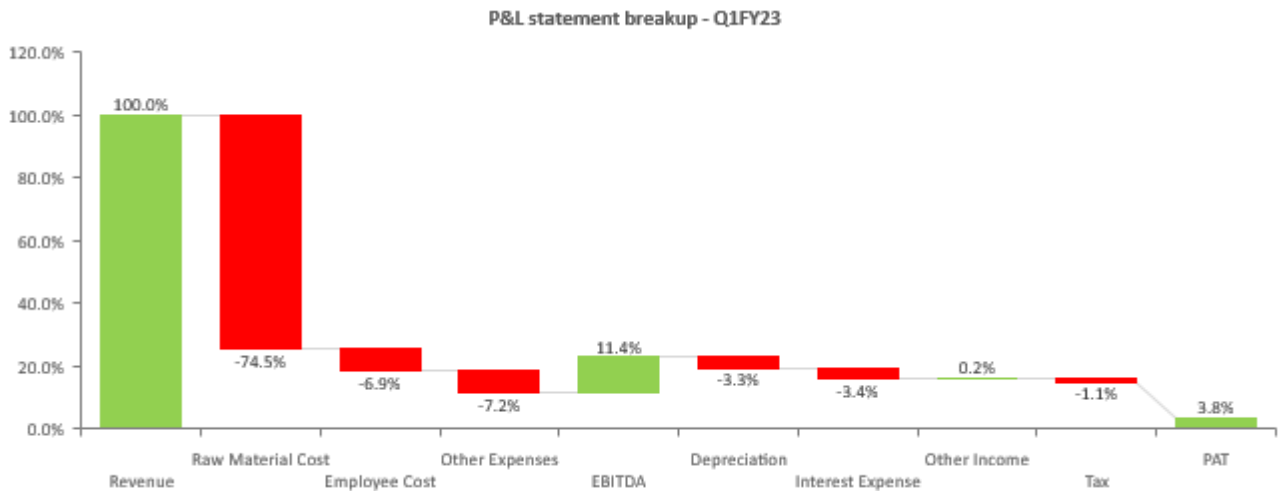
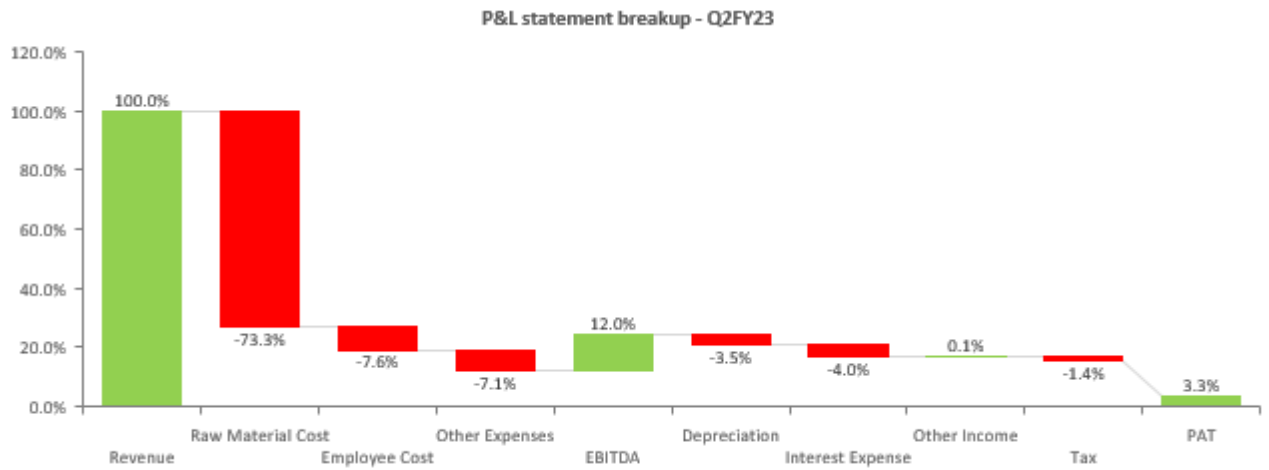
Exhibit 1: Margins were improved QoQ basis due to softening of raw material prices.



Source: Company Reports, Aриhant Capital Research

Quarterly results P&L breakup

Exhibit 2: The softening raw material prices resulted margin improvement on QoQ basis.

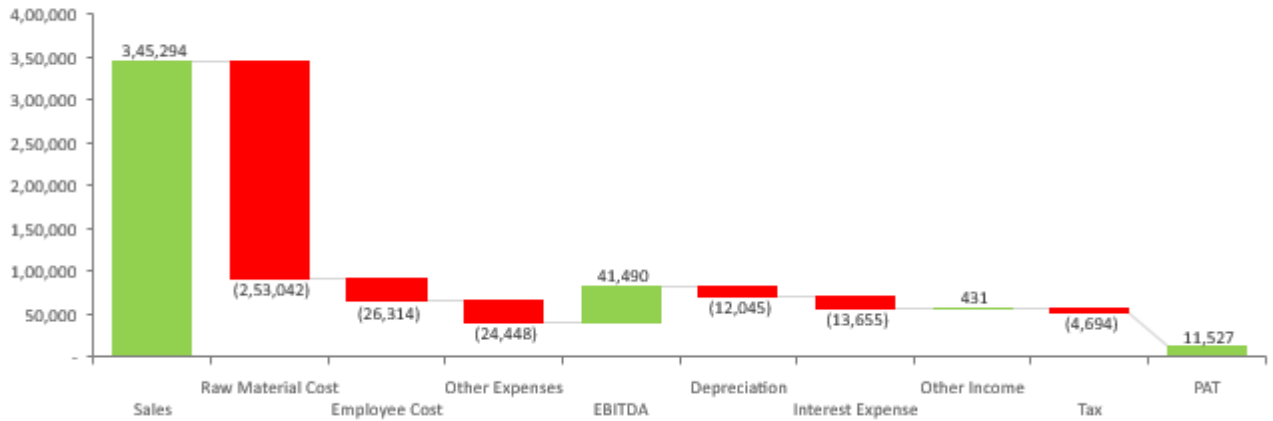


Source: Company Reports, Arianth Capital Research

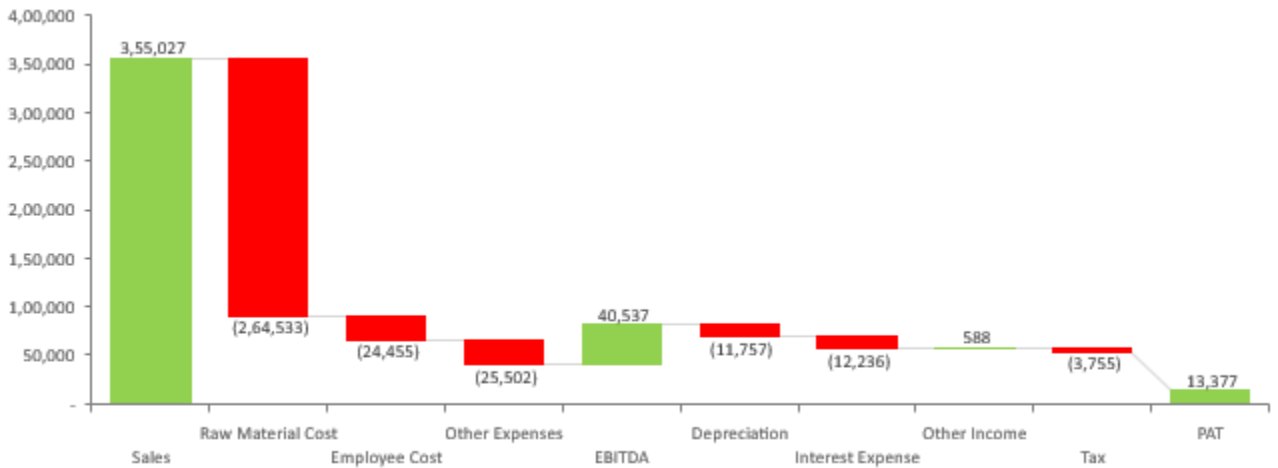
Quarterly results per tonne breakup

Exhibit 3: Sales per tonne improved on QoQ basis, due to sales growth backed by strong order execution and EBITDA per tonne improved on QoQ basis, due to softening of raw material costs.

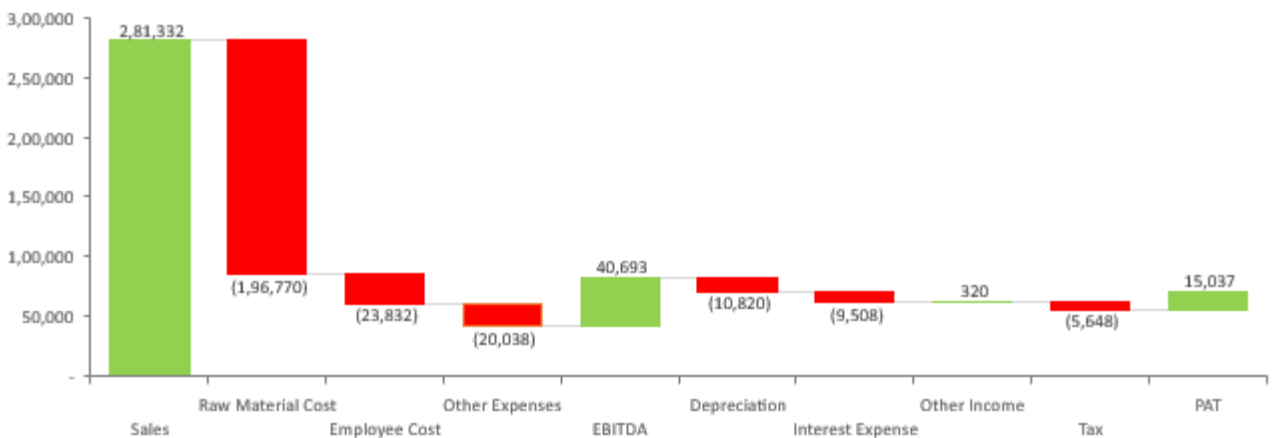
Per tonne (INR) - Q2FY23



Per tonne (INR) - Q1FY23



Per tonne (INR) - Q2FY22

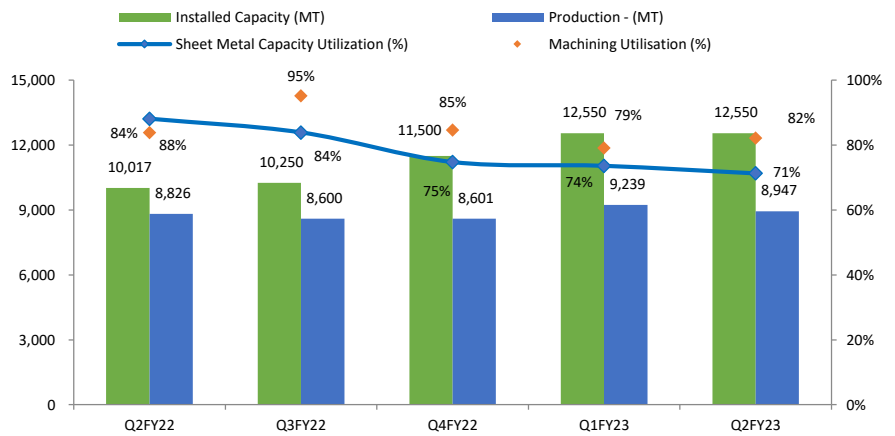


Source: Company Reports, Arianth Capital Research

### Concall Highlights

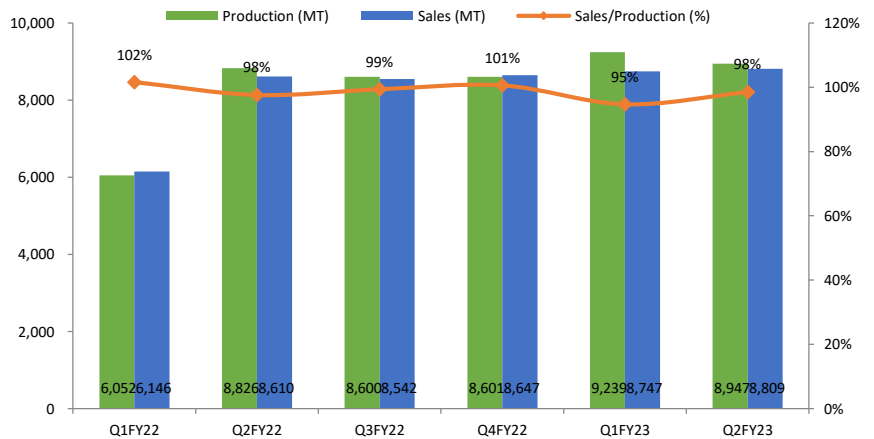
- The construction is being delayed due to monsoons. The machines are expected to install from may onwards. The total capacity of 72,000 tonnes per annum is expected to be completed by Q1FY24.
- The order book stood at INR 881cr as of Q1FY23. Out of INR 881cr, INR 550cr are short-term orders and executable in next 9 months and the remaining ~270cr worth of orders are long-term orders and executable over a period of time. The order book value decreased because raw material prices come down.
- The capacity utilization is expected to remain constant. There is no addition in machining and sheet metal capacity next two quarters.
- The commodity prices are softening and global logistics are remaining challenges.
- The net debt stood at INR 336cr and significant debt reduction in coming quarters.
- The company focused on domestic business. In Q2FY23, domestic and export revenue mix stood at 63:37 vs 73:27 in Q2FY22. Local demand remains strong and export demand is reasonable. The components are exported to coal and oil companies. The company has exported to north America and South America.
- The EBITDA per tonne is expected to reach INR 41,000 to INR 42,000 by FY23.
- In Q2FY23, the assembled and value-added components share stood at around 76% vs 70% in Q2FY22.
- The Incentives amounting to INR 27cr are expected in Q3FY23 or Q4FY23. Around INR 32cr incentives are expected by FY24.
- The total Capex is INR 100cr for FY23. INR 50cr Capex is already done and INR 50cr is expected in H2FY23. INR 50cr Capex will be utilized for the construction of the shed and advances for machines. The advances will be given from Jan onwards. The machine installation will take 1 to 1.5 months.
- The company has an additional Capex of INR 197cr which is expected to start from FY24. Out of INR 197cr, INR 70cr for refurbishing, INR 55cr for an increase in machining hours, and the remaining amount will be utilized for automation and replacement of existing machines.
- The company has entered into a new end-user application segment automotive. The company supplies components for IC engines and electrical vehicles. The revenue is expected to pick up from Q3FY23 onwards. The new automotive segment revenue is expected around INR 40cr by FY23 and INR 90 to INR 100cr revenue is expected by FY24.
- The company has received orders from Alstom and other two clients for railways.

**Exhibit 4: Machining utilization remaining healthy and sheet metal capacity utilisation is expected to improve going forward.**



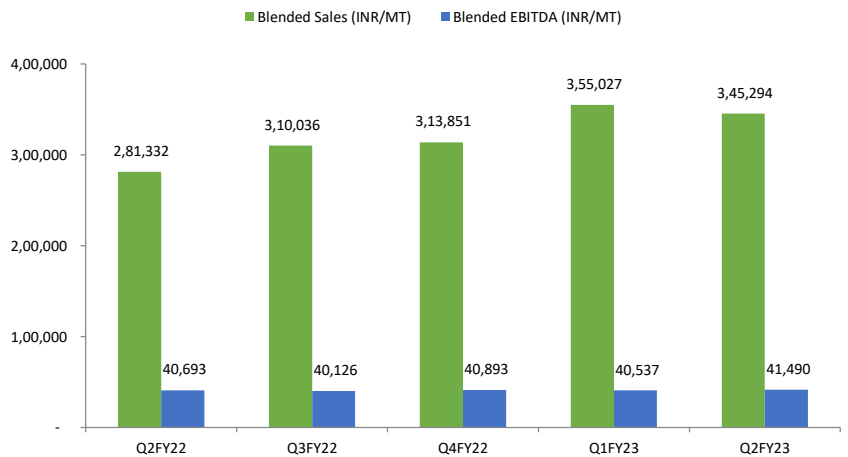
Source: Company Reports, Arihant Capital Research  
 Installed capacity is quarterly basis

**Exhibit 5: Sales are in-line with production**



Source: Company Reports, Arihant Capital Research

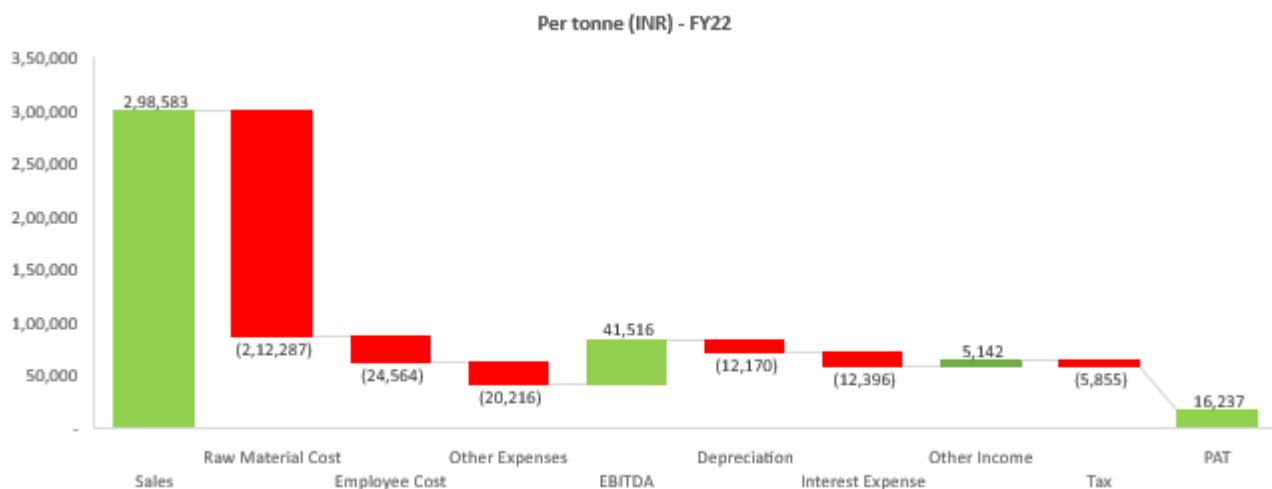
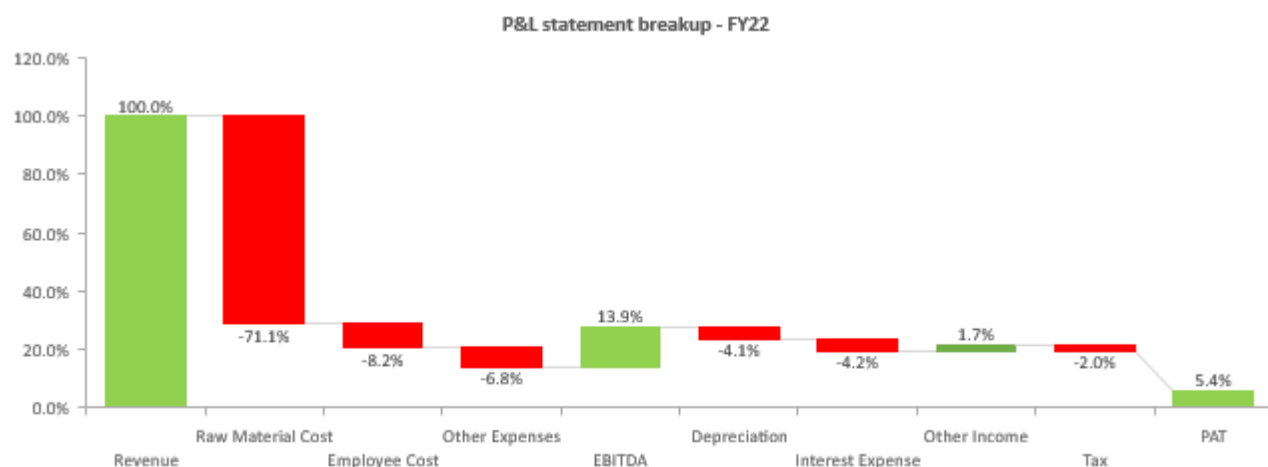
**Exhibit 6: Improvement in EBITDA realizations**



Source: Company Reports, Arihant Capital Research

## P&amp;L breakup – FY22 and Estimates

Exhibit 7: P&amp;L breakup and per tonne – FY22



Source: Company Reports, Arianth Capital Research

Exhibit 8: Sales are expected to reach more than INR 1,750cr by FY25. The current capacity stood at 50,200 MTPA and expected to reach 72,000 MTPA by Q1FY24.

Particular	FY20	FY21	FY22	FY23E	FY24E	FY25E
Installed Capacity (MTPA)	36,000	36,000	46,000	50,200	72,000	72,000
Machine Shop (Hours per Annum)	2,47,600	3,62,800	4,03,200	4,03,200	6,48,000	6,48,000
Production - Lamination (MT)	21,435	21,708	32,080	36,646	43,200	54,000
Sales (MT)	22,122	21,561	31,945	35,913	42,336	52,920
Sales/Production (%)	103%	99%	99.6%	98%	98%	98%
Capacity Utilization (%)	59.5%	60.3%	70%	73%	60%	75%
<b>Sales (INR cr)</b>	<b>525</b>	<b>518</b>	<b>954</b>	<b>1,180</b>	<b>1,418</b>	<b>1,808</b>
<b>EBITDA (INR cr)</b>	<b>78</b>	<b>78</b>	<b>133</b>	<b>149</b>	<b>185</b>	<b>258</b>
Blended Sales Realization (INR per metric tonne)	2,37,349	2,40,326	2,98,583	3,28,441	3,35,010	3,41,710
Blended EBITDA (INR per metric tonne)	35,131	36,197	41,516	41,491	43,713	48,660

Source: Company Reports, Arianth Capital Research

## DCF Valuation

Valuation Assumptions		WACC	
g (World Economic Growth)	3%	We	85.5%
Rf	7%	Wd	14.5%
Rm	14%	Ke	16.0%
Beta	1.4	Kd	8.4%
CMP (INR)	299	<b>WACC</b>	<b>14.9%</b>

Valuation Data	
Total Debt (long term borrowings) (2022)	163
Cash & Cash Equivalents (2022)	35
Number of Diluted Shares (2022)	3
Tax Rate (2023)	27%
Interest Expense Rate (2023)	12%
MV of Equity	959
Total Debt	163
<b>Total Capital</b>	<b>1,122</b>

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase				Terminal Yr	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Year												
EBIT * (1-Tax Rate)	76	98	146	178	202	223	243	262	280	295	307	317
Dep	45	51	57	63	68	73	81	87	93	98	102	105
Purchase of Assets	(102)	(68)	(68)	(68)	(62)	(63)	(72)	(77)	(82)	(87)	(90)	(93)
Changes in Working Capital	4	(48)	(69)	22	36	11	28	30	32	33	35	36
FCFF	24	33	66	195	245	245	280	302	322	340	354	365
<b>Total Cash Flow</b>	<b>24</b>	<b>33</b>	<b>66</b>	<b>195</b>	<b>245</b>	<b>245</b>	<b>280</b>	<b>302</b>	<b>322</b>	<b>340</b>	<b>343</b>	<b>365</b>

Enterprise Value (EV)	1,558
Less: Debt	163
Add: Cash	35
Equity Value	1,430
<b>Equity Value per share (INR)</b>	<b>446</b>

**% Returns** 49.1%

**Rating** BUY

## Sensitivity of Target Price to Terminal growth and WACC

		Terminal Growth (%)								
		2.3%	2.6%	2.8%	3.1%	3.3%	3.6%	3.8%	4.1%	4.3%
WACC (%)	446									
	14.0%	476	483	491	499	507	516	525	534	544
	14.3%	462	469	476	483	491	499	508	517	526
	14.5%	448	455	462	469	476	483	491	500	509
	14.8%	435	441	448	454	461	468	476	484	492
	15.0%	423	429	435	441	447	454	461	469	476
	15.3%	411	416	422	428	434	440	447	454	461
	15.5%	400	405	410	416	421	427	434	440	447
	15.8%	389	393	398	404	409	415	421	427	433
	16.0%	378	383	387	392	398	403	409	414	420

Source: Company reports, Arihant Capital Research, Figures are in INR cr except share price and percentage data



## Financial Statements

## Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	525	518	954	1,190	1,431	1,825
Net Raw Materials	345	335	678	868	1,023	1,283
Employee Cost	55	56	78	93	116	150
Other Expenses	48	49	65	81	107	135
<b>EBITDA</b>	<b>78</b>	<b>78</b>	<b>133</b>	<b>149</b>	<b>185</b>	<b>258</b>
<b>EBITDA Margin (%)</b>	<b>14.8%</b>	<b>15.1%</b>	<b>13.9%</b>	<b>12.5%</b>	<b>12.9%</b>	<b>14.1%</b>
Depreciation	(27)	(30)	(39)	(45)	(51)	(57)
Interest expense	(34)	(30)	(40)	(44)	(40)	(35)
Other income	4	20	16	29	34	44
<b>Profit before tax</b>	<b>20</b>	<b>39</b>	<b>71</b>	<b>88</b>	<b>129</b>	<b>210</b>
Taxes	(3)	(10)	(19)	(24)	(35)	(57)
<b>Net profit</b>	<b>17</b>	<b>29</b>	<b>52</b>	<b>65</b>	<b>94</b>	<b>153</b>
<b>Reported Netprofit Margin (%)</b>	<b>3.3%</b>	<b>5.5%</b>	<b>5.4%</b>	<b>5.4%</b>	<b>6.6%</b>	<b>8.4%</b>
Other Comprehensive income	(0)	(1)	0	-	-	-
<b>Net profit</b>	<b>17</b>	<b>28</b>	<b>52</b>	<b>65</b>	<b>94</b>	<b>153</b>
EPS (INR)	5	9	16	20	29	48

Source: Company Reports, Arianth Capital Research

## Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	16	16	16	16	16	16
Reserves	192	220	268	332	427	580
<b>Net worth</b>	<b>208</b>	<b>236</b>	<b>284</b>	<b>349</b>	<b>443</b>	<b>596</b>
Provisions	34	74	12	23	27	35
Debt	241	263	401	361	326	276
Other non-current liabilities	11	10	9	24	29	36
<b>Total Liabilities</b>	<b>494</b>	<b>583</b>	<b>706</b>	<b>756</b>	<b>825</b>	<b>943</b>
Fixed assets	212	193	228	283	300	311
Capital Work In Progress	8	1	1	2	2	2
Other Intangible assets	11	18	14	14	14	14
Investments	42	95	18	36	43	55
Other non current assets	4	8	108	71	72	109
<b>Net working capital</b>	<b>200</b>	<b>258</b>	<b>301</b>	<b>297</b>	<b>345</b>	<b>414</b>
Inventories	127	157	272	297	322	404
Sundry debtors	139	172	204	179	216	250
Loans & Advances	0.2	0.2	-	0.1	0.1	0.2
Other current assets	36	48	75	65	78	100
Sundry creditors	(97)	(105)	(220)	(214)	(239)	(301)
Other current liabilities & Prov	(6)	(13)	(30)	(31)	(33)	(40)
Cash	15	9	35	51	47	36
Other Financial Assets	1	0	1	2	3	4
<b>Total Assets</b>	<b>494</b>	<b>583</b>	<b>706</b>	<b>756</b>	<b>825</b>	<b>943</b>

Source: Company Reports, Arianth Capital Research

## Financial Statements

## Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	20	39	71	88	129	210
Depreciation	27	30	39	45	51	57
Tax paid	(3)	(10)	(19)	(24)	(35)	(57)
Working capital Δ	(4)	(58)	(43)	4	(48)	(69)
<b>Operating cashflow</b>	<b>41</b>	<b>1</b>	<b>48</b>	<b>114</b>	<b>97</b>	<b>141</b>
Capital expenditure	(23)	(4)	(73)	(102)	(68)	(68)
<b>Free cash flow</b>	<b>18</b>	<b>(4)</b>	<b>(26)</b>	<b>12</b>	<b>30</b>	<b>73</b>
Equity raised	20	(1)	0	-	0	0
Investments	(25)	(53)	77	(17)	(7)	(12)
Others	(2)	(9)	(97)	35	(1)	(39)
Debt financing/disposal	(32)	22	139	(40)	(35)	(50)
Other items	22	39	(63)	26	9	15
<b>Net Δ in cash</b>	<b>1</b>	<b>(6)</b>	<b>26</b>	<b>16</b>	<b>(4)</b>	<b>(12)</b>
<b>Opening Cash Flow</b>	<b>14</b>	<b>15</b>	<b>9</b>	<b>35</b>	<b>51</b>	<b>47</b>
<b>Closing Cash Flow</b>	<b>15</b>	<b>9</b>	<b>35</b>	<b>51</b>	<b>47</b>	<b>36</b>

Source: Company Reports, Arianth Capital Research

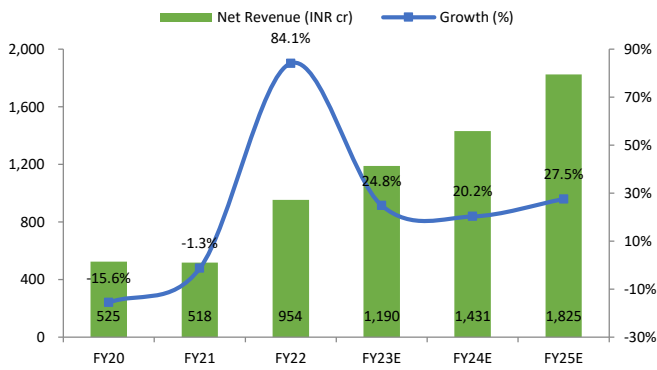
## Ratio analysis

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>						
Revenue growth	-15.6%	-1.3%	84.1%	24.8%	20.2%	27.5%
Op profit growth	-13.7%	0.4%	69.9%	12.4%	24.2%	39.1%
<b>Profitability ratios (%)</b>						
OPM	14.8%	15.1%	13.9%	12.5%	12.9%	14.1%
Net profit margin	3.3%	5.5%	5.4%	5.4%	6.6%	8.4%
RoCE	10.0%	9.6%	12.8%	13.5%	16.1%	21.0%
RoNW	9.0%	13.0%	20.0%	20.4%	23.8%	29.5%
RoA	3.5%	4.9%	7.3%	8.5%	11.4%	16.2%
<b>Per share ratios (INR)</b>						
EPS	5.3	8.7	16.2	20.1	29.3	47.8
Dividend per share	-	-	1.2	-	-	-
Cash EPS	13.9	18.4	28.3	34.3	45.3	65.5
Book value per share	64.8	73.6	88.6	108.7	138.0	185.8
<b>Valuation ratios (x)</b>						
P/E	56.9	34.2	18.5	14.8	10.2	6.3
P/CEPS	21.5	16.2	10.6	8.7	6.6	4.6
P/B	4.6	4.1	3.4	2.8	2.2	1.6
EV/EBITDA	14.7	14.3	9.9	8.3	6.5	4.4
<b>Payout (%)</b>						
Dividend payout	0.0%	0.0%	7.3%	0.0%	0.0%	0.0%
Tax payout	13.9%	25.4%	26.5%	27.0%	27.0%	27.0%
<b>Liquidity ratios</b>						
Debtor days	112	110	72	59	50	47
Inventory days	120	154	116	120	110	103
Creditor days	82	84	72	76	66	63
WC Days	150	180	115	102	95	87
<b>Leverage ratios (x)</b>						
Interest coverage	1.5	1.6	2.4	2.4	3.4	5.8
Net debt / equity	1.1	1.1	1.3	0.9	0.6	0.4
Net debt / op. profit	2.9	3.3	2.8	2.1	1.5	0.9

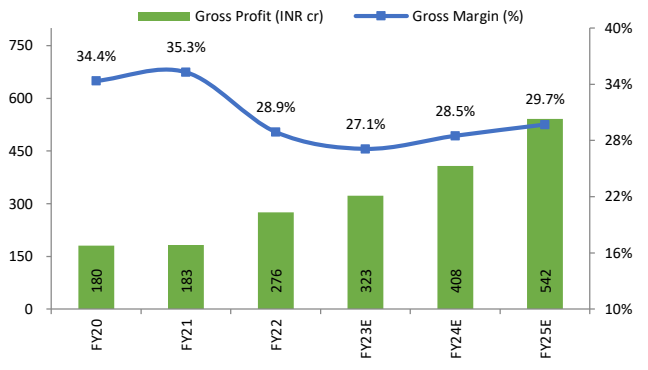
Source: Company Reports, Arianth Capital Research

Story in Charts

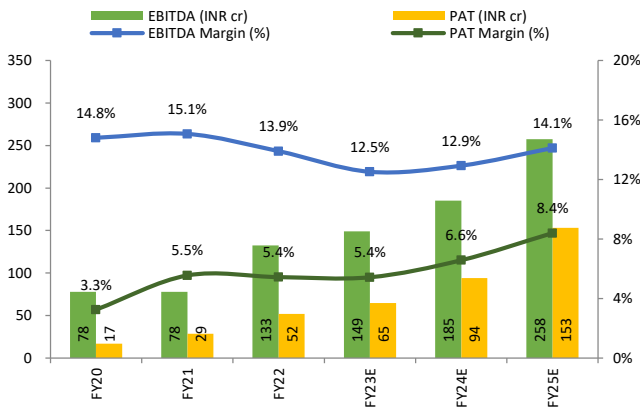
**Exhibit 9: Strong revenue growth in FY22.**



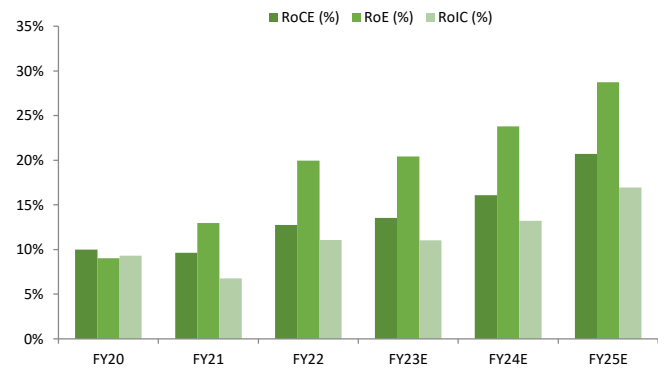
**Exhibit 10: Input prices impacted gross margins**



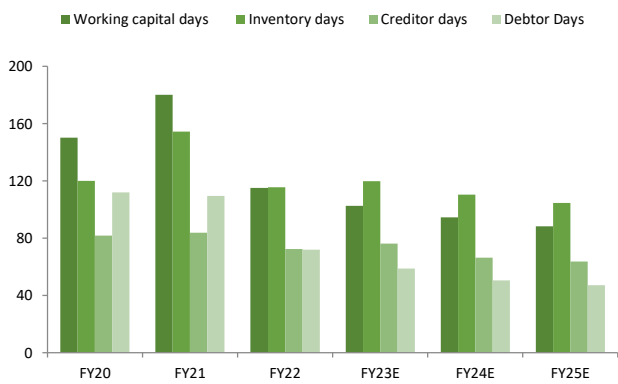
**Exhibit 11: Growth in EBITDA & PAT levels**



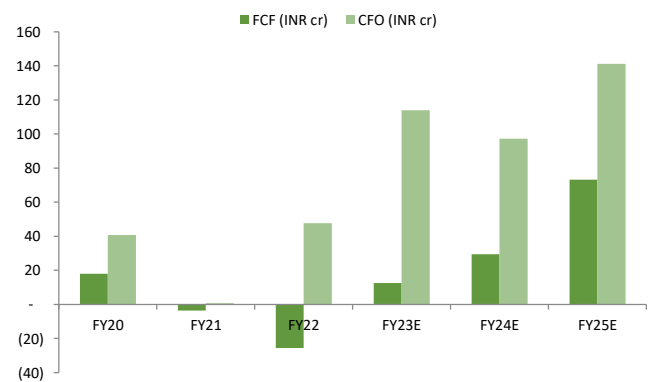
**Exhibit 12: Return ratios to be improve**



**Exhibit 13: Working capital days to be improve**



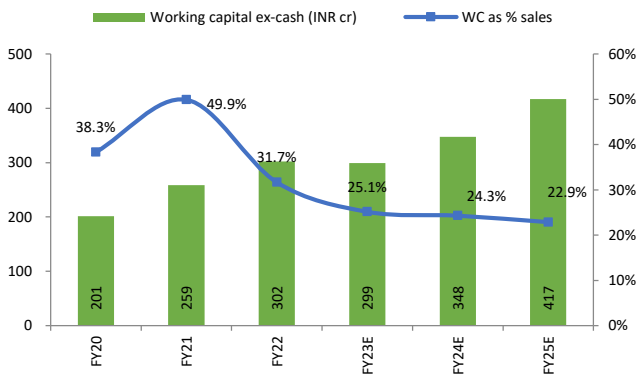
**Exhibit 14: Cash flows to be improve**



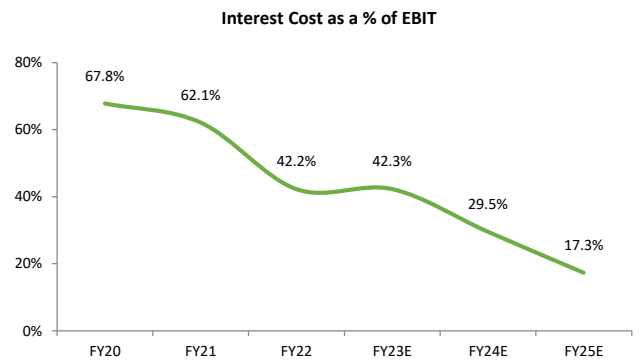
Source: Company Reports, Arianth Capital Research

**Story in Charts**

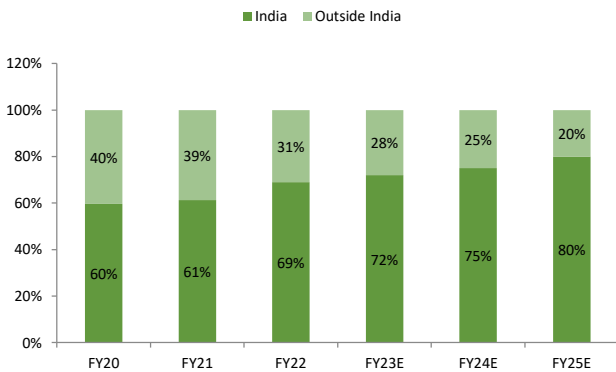
**Exhibit 15: Working capital in-terms of sales is expected to reduce going forward.**



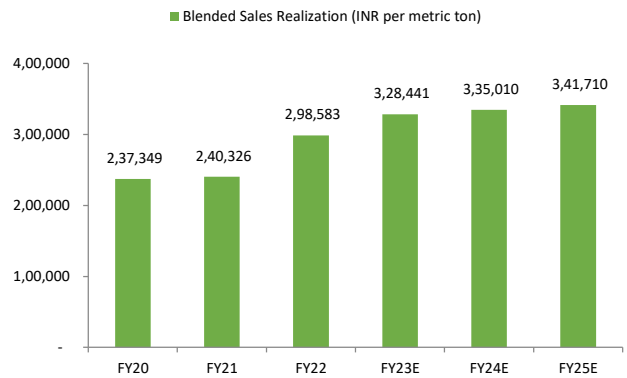
**Exhibit 16: Interest cost as % of EBIT is expected to reduce going forward.**



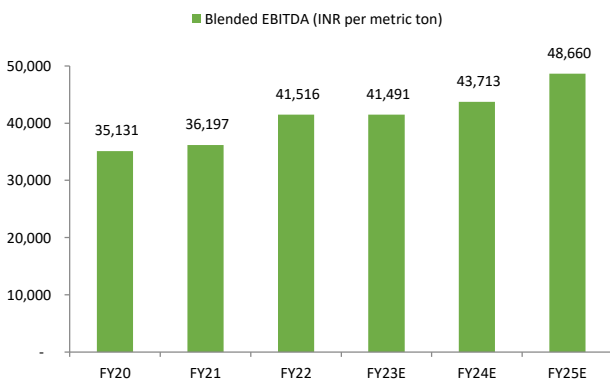
**Exhibit 17: Exports revenue share is expected to reach 20% going forward.**



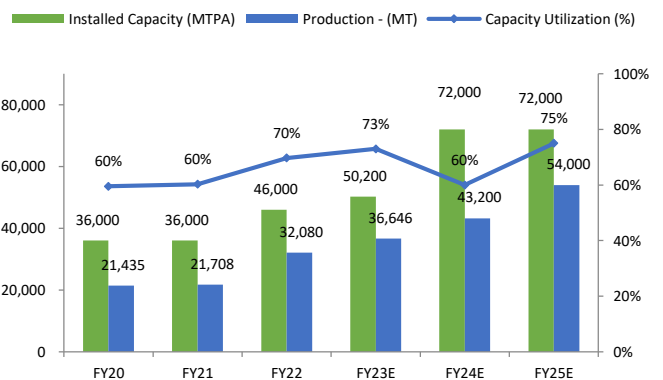
**Exhibit 18: Sales realisation is continue to grow going forward.**



**Exhibit 19: EBITDA realisation is continue to grow going forward**



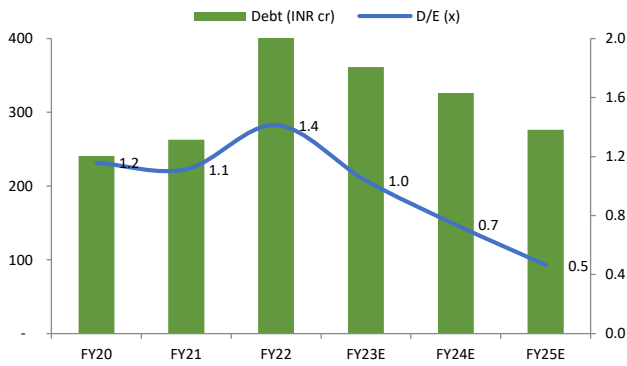
**Exhibit 20: Capacity utilisation is expected to be above 70% going forward. In FY24, additional capacity 21,800 MT will be added which leads to bring down the blended utilisation.**



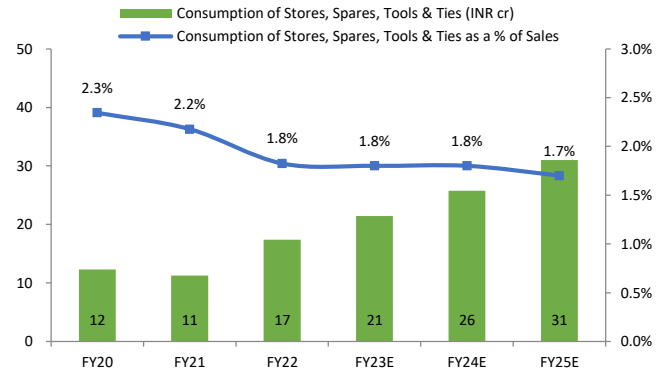
Source: Company Reports, Arihant Capital Research

**Story in Charts**

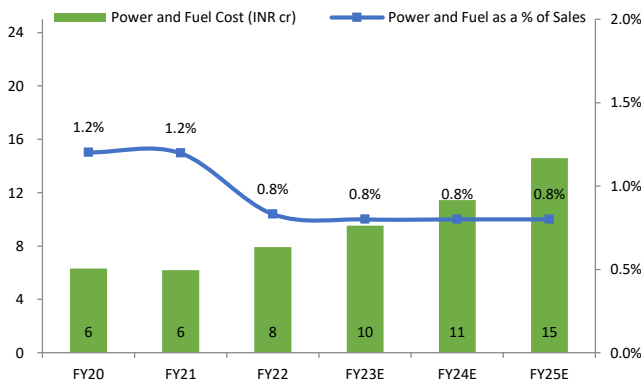
**Exhibit 21: The debt is expected to reduce going forward.**



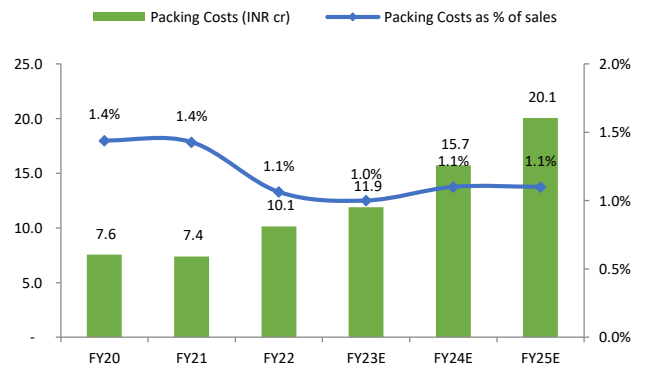
**Exhibit 22: Tools and Ties cost is expected to be less than 2% of sales.**



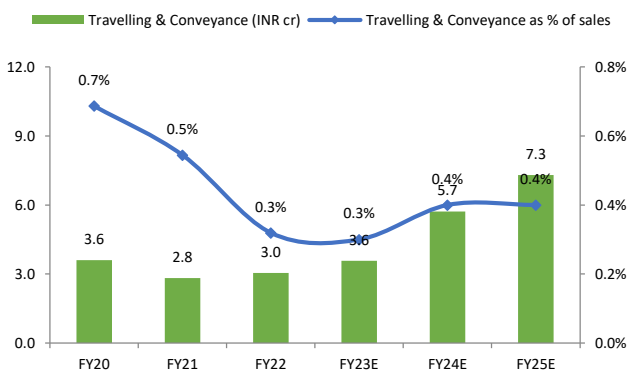
**Exhibit 23: Power and fuel cost is expected to be less than 1% of sales.**



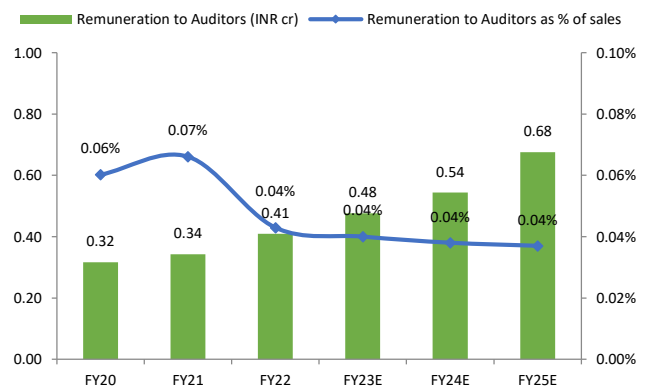
**Exhibit 24: Packing cost is expected to be less than 1.5% of sales.**



**Exhibit 25: Travelling activities are expected to pickup going forward.**



**Exhibit 26: Auditors remuneration is expected to be flat in-terms of sales.**



Source: Company Reports, Arianth Capital Research

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

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