

**CMP: INR 492**

**Rating: Buy**

**Target Price: INR 625**

**Stock Info**

BSE	532163
NSE	INE979A01025
Bloomberg	SARE:IN
Reuters	SARE.NS
Sector	Media & Entertainment
Face Value (INR)	1
Mkt Cap (INR Mn)	94,862
52 week H/L (INR)	580/310
Avg. Yearly Volume (in ,000)	549

**Shareholding Pattern %**

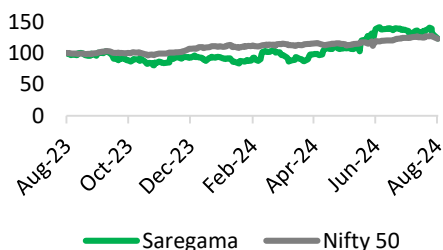
(As on March,2024)

Promoters	59.22
Public & Others	40.78

**Stock Performance (%)** 1m 3m 12m

Saregama	-10.2	14.2	23.3
Nifty 50	-1.1	7.9	22.8

**Saregama Vs Nifty 50**



Saregama India Q1FY25 revenue stood at INR 2,053 Mn, up by 25.7% YoY & down by 22% QoQ below our estimate of INR 2,140 Mn. EBITDA for Q1FY25 was INR 515 Mn, representing a 6.5% YoY increase but an 18.4% QoQ decrease, which is below our estimate of INR 696 Mn. The EBITDA margin declined by 557 bps YoY and by 155 bps QoQ to 25.1% in Q1FY25, below of our estimate of 32.5%. PAT for Q1FY25 was INR 371 Mn, representing a 14.4% YoY decrease and a 31.2% QoQ decrease, below our estimate of INR 537 Mn. The PAT margin decreased by 845 bps YoY and by 242 bps QoQ to 18.1% in Q1FY25, which is below our estimate of 25.1%.

**Investment Rationale**

**Music licensing & Artist management:** Saregama's core music business, including licensing and artist management, is set for strong growth. In Q1 FY25, they released over 330 original and premium regression songs in multiple languages. The artist management vertical generated INR 160 Mn in revenue. The song "Tauba Tauba" from "Bad News" was #1 on Spotify and YouTube globally for 29 days. Saregama projects 26% YoY revenue growth for FY25 in this vertical. They plan to invest over INR 10,000 Mn in new music content over the next 3 years to drive long-term growth and solidify their position as a leading music label.

**Growing video content production:** While still in early stages, Saregama is building its video content business under brands like Yoodlee Films and Dice Media. The company is focusing on regional cinema, digital series, and short-format content. Their strategy involves pre-licensing or pre-commissioning content to ensure profitability. Management expects this vertical to grow at a 25% CAGR over the next 5 years. Though margins are currently low, they aim to reach 8-10% margins in 12-18 months.

**Expansion in Live Events and artist management:** Saregama is growing in live events and artist management, including the "Dil luminati" tour of Diljit Dosanjh in North America with record-breaking attendance in Vancouver. They launched "That's So Viraj-With Friends," a live comedy show. Over 30 new influencers and music artists were added to their portfolio, now totalling over 150 artists with a combined social media following exceeding 100 mn. This high-revenue, low-margin business offers additional monetization opportunities and is expected to benefit from India's growing digital advertising market.

**Carvaan's new retail strategy:** Saregama is shifting Carvaan's retail strategy to focus on e-commerce and modern trade channels, aiming to improve profitability through better cost control despite potential short-term lower unit sales. Carvaan revenues are now disclosed separately, with management viewing it as a profitable niche product rather than a major growth driver.

**Outlook and Valuation**

Saregama India experienced a revenue decline in its Carvaan product line this quarter, offsetting growth in other areas. The transition of some streaming platforms from free to paid models led to a temporary revenue dip, described as a "base effect" confined to this quarter. Increased investment in new content resulted in higher content charge-offs, impacting profitability despite overall revenue growth. Strategically, Saregama is positioning itself as a diversified IP company focused on long-term growth in music, video, and live entertainment. Management projects a 30% CAGR in revenue (excluding Carvaan) over the next three years and expects profits to double in 3-4 years, highlighting significant growth potential across its business segments. **We expect Saregama's revenue, EBITDA, and PAT to grow at a CAGR of 29.5%, 32.4%, and 26.7%, respectively, over FY25-27E and arrive at a TP of INR 625 per share. Accordingly, we maintain a "BUY" rating on the stock.**

**Exhibit 1: Financial Performance**

Year-end March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY23	7,366	2,210	1,850	9.6	30.0%	40.6	51.3
FY24	8,030	2,466	1,976	10.2	30.7%	36.3	48.0
FY25E	10,451	3,214	2,384	12.4	30.8%	26.8	39.8
FY26E	13,391	4,222	2,914	15.1	31.5%	20.5	32.5
FY27E	17,544	5,633	3,825	19.8	32.1%	15.5	24.8

Source: Arihant Research, Company Filings

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Exhibit 2: Q1FY25 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INR Mn)	Q1FY25	Q4FY24	Q1FY24	QoQ	YoY
Net sales	2,052.8	2,630.5	1,633.4	-22.0%	25.7%
COGS	679.5	946.6	343.6	-28.2%	97.8%
GP	1,373.3	1,683.9	1,289.8	-18.4%	6.5%
GP Margin	66.90%	64.01%	78.96%	288.44bps	-1206.53bps
Employees benefits expense	263.0	277.9	199.8	-5.4%	31.6%
Advertisement and sales promotion	242.5	266.6	190.4	-9.0%	27.4%
Royalty expense	151.4	159.7	159.5	-5.2%	-5.1%
Other expenses	201.8	279.5	239.7	-27.8%	-15.8%
EBITDA	514.6	700.2	500.4	-26.5%	2.8%
EBITDA Margin	25.07%	26.62%	30.64%	-155.03bps	-556.73bps
Depreciation and amortisation expense	127.3	116.0	70.4	9.7%	80.8%
EBIT	387.3	584.2	430.0	-33.7%	-9.9%
EBIT margin	18.9%	22.2%	26.3%	-334.18bps	-745.85bps
Other Income	121.8	179.8	175.2	-32.3%	-30.5%
Finance Cost	2.1	3.7	14.4	-43.2%	-85.4%
PBT	507.0	760.3	590.8	-33.3%	-14.2%
Tax	136.1	221.3	157.6	-38.5%	-13.6%
Reported PAT	370.9	539.0	433.2	-31.2%	-14.4%
PAT Margin	18.1%	20.5%	26.5%	-242.24bps	-845.34bps
EPS	1.9	2.8	2.3	-31.2%	-14.7%

	Q1FY25	Q4FY24	Q1FY24	QoQ(bps)	YoY(bps)
RMC/Sales	33.10%	35.99%	21.04%	-288.44	1206.53
Employee exp/Sales	12.81%	10.56%	12.23%	224.72	57.96
Advertisement and sales/Sales	11.81%	10.13%	11.66%	167.82	15.65
Royalty expenses/Sales	7.38%	6.07%	9.76%	130.42	-238.96
Other exp/Sales	9.83%	10.63%	14.67%	-79.49	-484.44

Source: Arianth Research, Company Filings

Saregama India- Q1FY25 Concall KTAs  
CMP INR 490 | 94,544 Mn

Expect consolidated revenue (excluding Carvaan) to grow at a CAGR of 30% over the next 3 years and Adjusted margin guidance to maintain 30-32%

### Music vertical

- Released over 330 original and premium recreation songs across multiple languages, including Hindi, Bhojpuri, Gujarati, Punjabi, Tamil, Telugu, Malayalam, Marathi, and Bengali.
- The company aims to grow its music vertical revenue, which includes licensing and artist management, by a minimum of 26% in FY25.
- Saregama is targeting to acquire 25-30% of all new music released in India, with the licensing vertical expected to double its revenue in 3-3.5 years (25-36% YoY growth).
- The charge-off for new content increased by 48% YoY in Q1FY25.
- The company is investing more in newer content, which initially impacts profitability but is expected to yield higher returns in about 18 months.
- Music licensing revenue, combined with artist management, is showing steep growth.
- The company emphasizes viewing music performances on a 12-month basis rather than quarterly due to seasonal variations.

### Youtube

- A large portion of YouTube views now come from the Shorts platform.
- April-May saw advertising money diverted to elections and IPL, affecting YouTube revenues, but June stabilized, and July has been steady.

### Events vertical

- Started the Dil Luminati Tour of Diljit Dosanjh in Vancouver, with over 50,000 fans attending. The company held 11 concerts in Canada and the USA, with more shows planned in India and UAE in the coming quarters.
- The events business operates on short gestation periods, typically investing two months before an event.
- Margins in the events business are usually in the mid-single digits, but the IRR can be triple digits if money is managed properly.

### Artist management

- Added 30+ new influencers and music artists, bringing their portfolio to over 150 artists.
- Music revenues, including artist management, grew by over 23% YoY.
- Margins in artist management vary: 20-40% for music artists and 15-20% for influencers, before deducting team expenses.
- The strategy includes investing in younger artists to potentially benefit from both their music and non-music earnings (like brand endorsements).

### Carvaan business

- Implemented a new retail strategy for Carvaan, focusing on e-commerce and modern retail stores.
- Carvaan revenue for Q1FY25 was INR 247 Mn, a significant drop compared to Q1FY24.
- The company is cutting down its retail network for Carvaan over the next two quarters.
- By the end of FY25, Carvaan is expected to become primarily an e-commerce and modern trade product.

### Video business

- Aims to grow its video business at a 25% CAGR over the next five years.
- The company released two Punjabi films and several web series across different platforms during the quarter.

### Capex

Plans to invest around INR 3,000 Mn in content acquisition this year, part of a broader INR 10,000 Mn investment plan over three years.

### Music licensing and Copyright protection

- Saregama requires brands to obtain a separate license when using their music for commercial promotions on platforms like YouTube and Meta.
- The company has invested in technology over the last 3-5 years to track unauthorized use of their music or its derivatives on social media platforms.
- Their system can detect even cover versions of their songs, allowing them to take down unauthorized content and pursue legal action for licensing.

**DCF Valuation**

**Valuation Assumptions**

g (World Economic Growth)	3.00%
Rf	7.11%
Rm	13.20%
Beta (2 Yr)	0.8
CMP (INR)	492

**WACC**

We	99.9%
Wd	0.1%
Ke	11.74%
Kd	7.67%
<b>WACC</b>	<b>11.74%</b>

**Valuation Data**

Total Debt (long term borrowings) (2023)	54
Cash & Cash Equivalents (2023)	5,421
Number of Diluted Shares (2023)	193
Tax Rate (2024)	27%
Interest Expense Rate (2024)	11%

MV of Equity	94,862
Total Debt	54
<b>Total Capital</b>	<b>94,916</b>

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT * (1-Tax Rate)	2,003	2,603	3,439	4,417	5,514	6,683	7,856	8,949	9,868	10,524	10,839	11,164
Dep	470	656	923	1,112	1,419	1,732	2,012	2,305	2,542	2,705	2,790	2,873
Purchase of Assets	1,045	1,272	1,579	1,767	1,930	2,005	2,200	2,327	2,171	2,210	2,168	2,233
Changes in Working Capital	-1,115	-1,665	-2,311	-2,752	-3,556	-4,322	-5,013	-5,756	-6,343	-6,750	-6,964	-7,170
<b>FCFF</b>	<b>2,543</b>	<b>3,652</b>	<b>5,094</b>	<b>6,514</b>	<b>8,560</b>	<b>10,731</b>	<b>12,681</b>	<b>14,683</b>	<b>16,582</b>	<b>17,769</b>	<b>18,425</b>	<b>18,974</b>
% Growth in Post Tax EBIT		29.97%	32.11%	28.47%	24.83%	21.19%	17.55%	13.91%	10.28%	6.64%	3.00%	3.00%
As % of Post Tax EBIT												
Dep	23.48%	25.21%	26.83%	25.18%	25.74%	25.91%	25.61%	25.75%	25.76%	25.71%	25.74%	25.74%
Purchase of Assets	52.19%	48.88%	45.92%	40.00%	35.00%	30.00%	28.00%	26.00%	22.00%	21.00%	20.00%	20.00%
Changes in Working Capital	-55.68%	-63.97%	-67.22%	-62.29%	-64.49%	-64.67%	-63.82%	-64.33%	-64.27%	-64.14%	-64.25%	-64.22%
<b>FCFF</b>	<b>2,543</b>	<b>3,652</b>	<b>5,094</b>	<b>6,514</b>	<b>8,560</b>	<b>10,731</b>	<b>12,681</b>	<b>14,683</b>	<b>16,582</b>	<b>17,769</b>	<b>18,425</b>	<b>18,974</b>
Terminal Value												2,17,220
<b>Total Cash Flow</b>	<b>2,543</b>	<b>3,652</b>	<b>5,094</b>	<b>6,514</b>	<b>8,560</b>	<b>10,731</b>	<b>12,681</b>	<b>14,683</b>	<b>16,582</b>	<b>17,769</b>	<b>18,425</b>	<b>2,36,195</b>

Enterprise Value (EV)	1,15,113
Less: Debt	54
Add: Cash	5,421
<b>Equity Value</b>	<b>1,20,480</b>
Equity Value per share (INR)	625
<b>% Returns</b>	<b>27.0%</b>
<b>Rating</b>	<b>BUY</b>

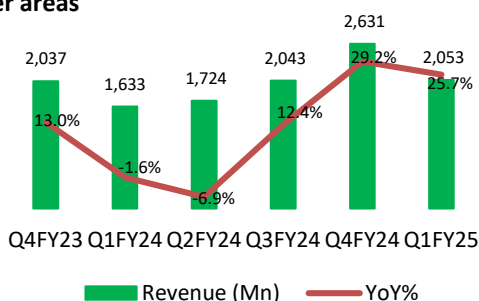
WACC (%)

624.87	Terminal Growth (%)							
	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%
10.99%	649	663	679	695	713	731	751	772
11.24%	627	641	655	670	686	704	722	741
11.49%	607	619	<b>633</b>	647	662	678	695	713
11.74%	587	599	612	<b>625</b>	639	654	669	686
11.99%	569	580	592	604	<b>617</b>	631	645	661
12.24%	552	562	573	585	597	<b>610</b>	623	637
12.49%	535	545	555	566	578	589	602	615
12.74%	520	529	539	549	559	571	582	595

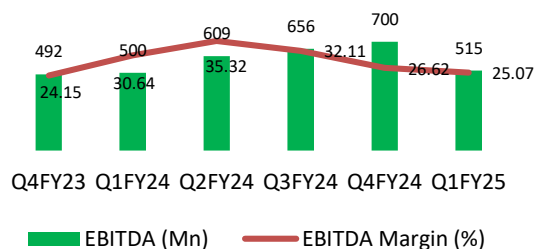
Source: Arianth Research, Company Filings

Story in charts (INR in Mn)

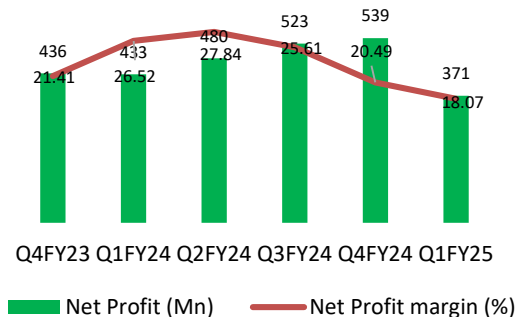
**Exhibit 3 : Carvaan revenue decline offset growth in other areas**



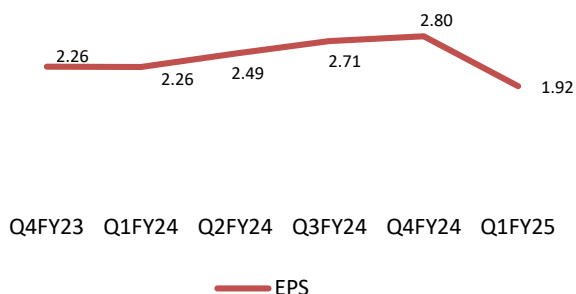
**Exhibit 4: Transition of some streaming platforms from free to paid models impacted margins**



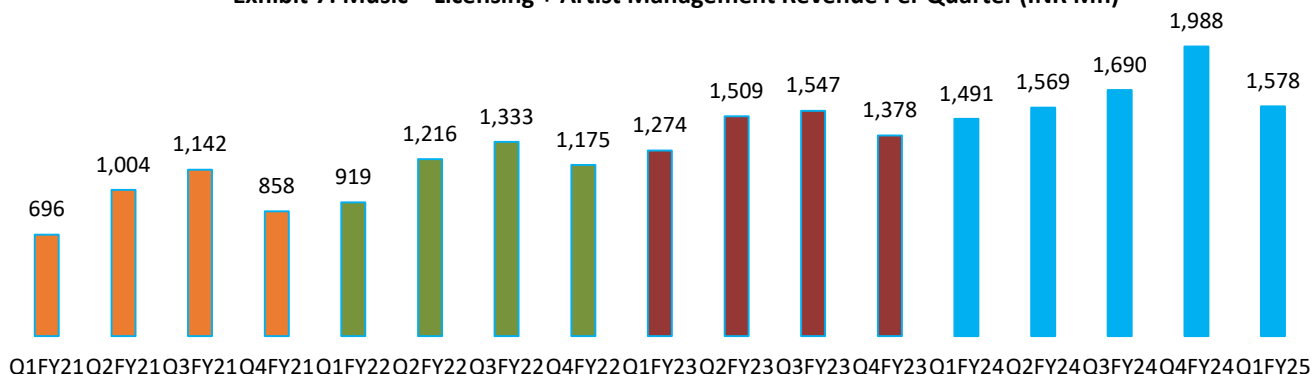
**Exhibit 5: Increased investment in new content led to higher content charge-offs impacting profitability**



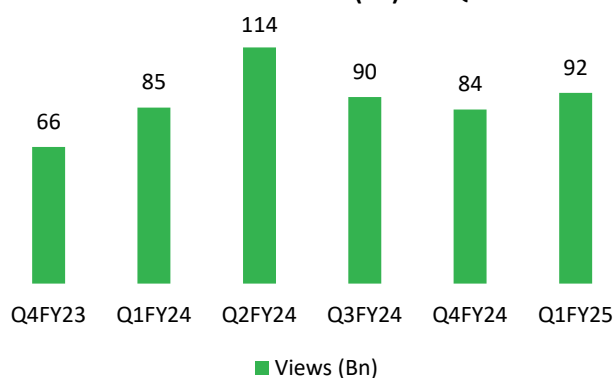
**Exhibit 6: EPS expected to improve in the coming quarters**



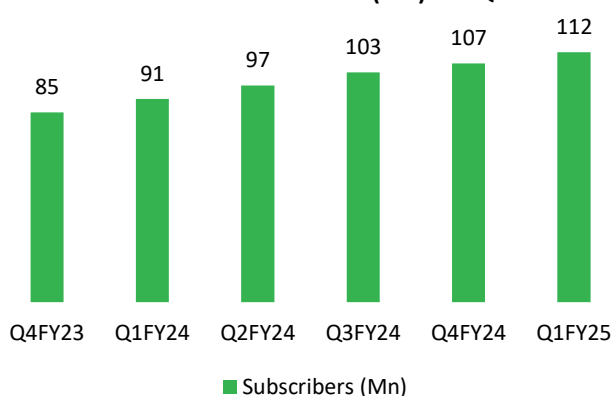
**Exhibit 7: Music – Licensing + Artist Management Revenue Per Quarter (INR Mn)**



**Exhibit 8: Youtube Views (Bn) Per Quarter**



**Exhibit 9: Youtube Subscribers (Mn) Per Quarter**



Source: Company, Arianth Research

Exhibit 10: Share of Saregama's Songs by Language (in %)

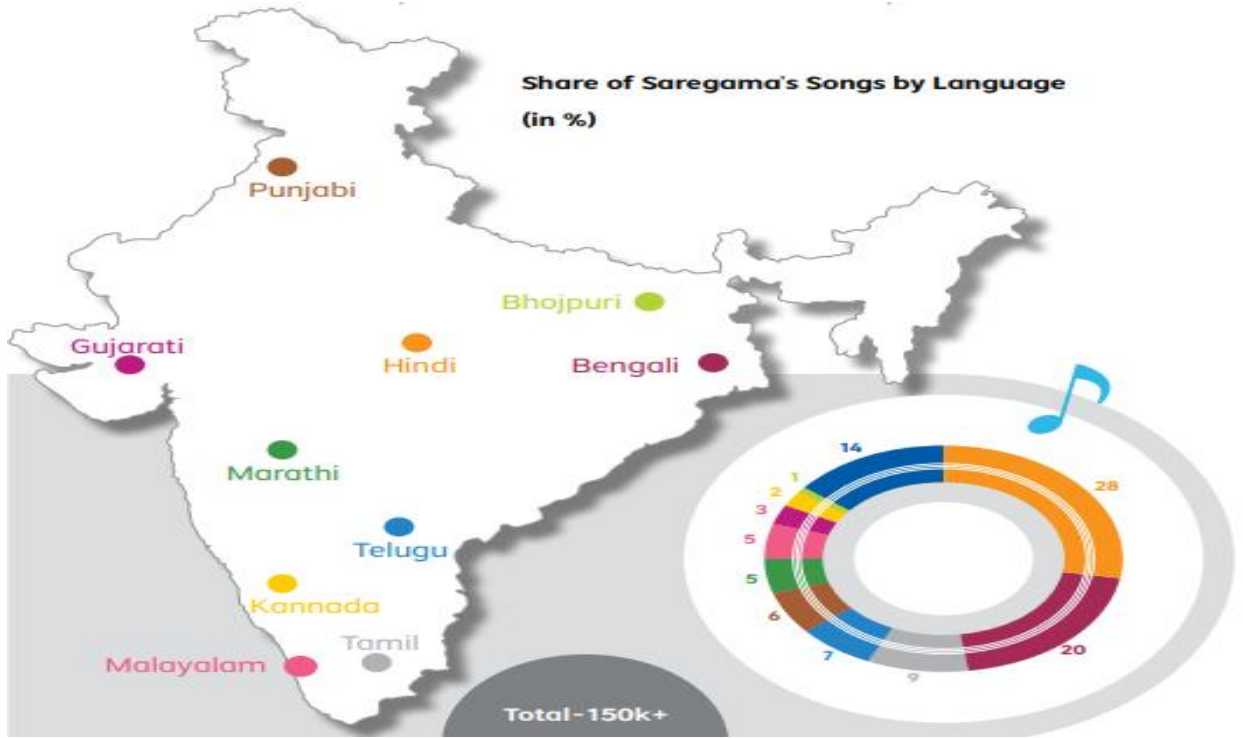


Exhibit 11: Strong FY25



Exhibit 12: New Music Partners – Film Music



Source: Company, Arianth Research

## Key Financials

Income statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	7,366	8,030	10,451	13,391	17,544
Net Sales	7,366	8,030	10,451	13,391	17,544
YoY (%)	26.86%	9.01%	30.16%	28.13%	31.01%
<b>Adjusted COGS</b>	<b>2,250</b>	<b>2,320</b>	<b>3,233</b>	<b>4,074</b>	<b>5,282</b>
YoY (%)	57.25%	3.11%	39.31%	26.02%	29.66%
Personnel/ Employee benefit expenses	750	932	1,216	1,544	2,006
Advertisement and sales promotion	775	760	981	1,244	1,611
Royalty expense	643	613	738	946	1,240
Manufacturing & Other Expenses	737	940	1,070	1,362	1,772
<b>Total Expenditure</b>	<b>5,156</b>	<b>5,565</b>	<b>7,238</b>	<b>9,169</b>	<b>11,911</b>
YoY (%)	18.09%	11.58%	30.35%	31.37%	33.42%
<b>EBITDA</b>	<b>2,210</b>	<b>2,466</b>	<b>3,214</b>	<b>4,222</b>	<b>5,633</b>
YoY (%)	18.09%	11.58%	30.35%	31.37%	33.42%
<b>EBITDA Margin (%)</b>	<b>30.00%</b>	<b>30.70%</b>	<b>30.75%</b>	<b>31.53%</b>	<b>32.11%</b>
Depreciation	208	362	470	656	923
% of Gross Block	5.38%	7.26%	7.41%	7.96%	8.44%
<b>EBIT</b>	<b>2,002</b>	<b>2,104</b>	<b>2,744</b>	<b>3,566</b>	<b>4,710</b>
EBIT Margin (%)	27.17%	26.20%	26.25%	26.63%	26.85%
Interest Expenses	57	32	31	29	28
Non-operating/ Other income	536	637	524	446	490
<b>PBT</b>	<b>2,481</b>	<b>2,708</b>	<b>3,237</b>	<b>3,982</b>	<b>5,173</b>
Tax-Total	630	732	853	1,068	1,348
<b>Profit After Tax</b>	<b>1,850</b>	<b>1,976</b>	<b>2,384</b>	<b>2,914</b>	<b>3,825</b>
PAT Margin	25.12%	24.60%	22.81%	21.76%	21.80%
Shares o/s/ paid up equity sh capital	193	193	193	193	193
Adj EPS	10	10	12	15	20
Dividend per share	3	4	5	5	6
Dividend payout (%)	31.26%	39.04%	36.39%	33.08%	27.73%
<b>Retained earnings</b>	<b>1,272</b>	<b>1,204</b>	<b>1,517</b>	<b>1,950</b>	<b>2,764</b>

Balance sheet (INR Mn)					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
<b>Sources of Funds</b>					
Equity Share Capital	193	193	193	193	193
Reserves & Surplus/ Other Equity	13,262	14,533	16,917	19,831	23,656
<b>Networth</b>	<b>13,455</b>	<b>14,726</b>	<b>17,110</b>	<b>20,024</b>	<b>23,849</b>
Unsecured Loans/ Borrowings/ Lease Liabilities	15	38	40	40	41
Other Liabilities	1,947	1,797	1,836	1,835	1,847
<b>Total Liabilities</b>	<b>3,586</b>	<b>5,612</b>	<b>5,995</b>	<b>6,468</b>	<b>7,131</b>
<b>Total Funds Employed</b>					
<b>Application of Funds</b>	<b>17,041</b>	<b>20,338</b>	<b>23,104</b>	<b>26,492</b>	<b>30,980</b>
<b>Net Fixed Assets</b>					
Investments/ Notes/ Fair value measurement	3,418	7,478	5,331	6,743	8,703
<b>Current assets</b>	<b>3,491</b>	<b>1,817</b>	<b>2,234</b>	<b>2,763</b>	<b>3,437</b>
Inventory	12,520	12,221	17,071	18,975	21,426
Days	1,643	2,393	2,811	3,542	4,593
Debtors	219	317	317	317	317
Days	1,480	1,587	1,991	2,556	3,348
Other Current Assets	63	70	70	70	70
Cash and Cash equivalent	1,928	1,642	2,096	2,699	3,568
<b>Current Liabilities/Provisions</b>	<b>5,083</b>	<b>5,421</b>	<b>8,642</b>	<b>8,189</b>	<b>7,331</b>
Creditors / Trade Payables	3,080	2,969	3,164	3,474	3,942
Days	703	934	1,049	1,259	1,621
Liabilities	54	62	56	54	54
<b>Net Current Assets</b>	<b>922</b>	<b>738</b>	<b>771</b>	<b>805</b>	<b>840</b>
<b>Total Asset</b>	<b>9,441</b>	<b>9,252</b>	<b>13,907</b>	<b>15,500</b>	<b>17,484</b>
<b>Total Capital Employed</b>	<b>17,041</b>	<b>20,338</b>	<b>23,104</b>	<b>26,492</b>	<b>30,980</b>

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
<b>Profit After tax</b>	<b>2,481</b>	<b>2,708</b>	<b>3,237</b>	<b>3,982</b>	<b>5,173</b>
<b>Adjustments: Add</b>					
Depreciation and amortisation	208	362	470	656	923
Interest adjustment	-479	-604	-493	-416	-462
<b>Change in assets and liabilities</b>	<b>2,158</b>	<b>2,504</b>	<b>3,229</b>	<b>4,118</b>	<b>5,345</b>
Inventories	-588	-750	-418	-731	-1,051
Trade receivables	-402	-108	-403	-565	-792
Trade payables	57	231	116	210	361
Other Liabilities and provisions	545	-184	63	66	70
Other Assets	-207	218	-294	-372	-471
Taxes	-135	116	-161	-274	-429
<b>Net cash from operating activities</b>	<b>1,429</b>	<b>2,044</b>	<b>2,114</b>	<b>2,453</b>	<b>3,034</b>
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-831	-4,422	1,677	-2,069	-2,883
Net Sale/(Purchase) of investments	4,373	1,211	-353	-459	-597
Others	-255	1,100	460	375	413
<b>Net cash (used) in investing activities</b>	<b>3,286</b>	<b>-2,111</b>	<b>1,784</b>	<b>-2,153</b>	<b>-3,067</b>
Interest expense	-39	88	-20	-24	-26
Dividend paid	-578	-771	-868	-964	-1,060
Other financing activities	-2,253	-1,001	2	5	8
<b>Net cash (used) in financing activities</b>	<b>-2,870</b>	<b>406</b>	<b>-677</b>	<b>-754</b>	<b>-825</b>
<b>Closing Balance</b>	<b>5,083</b>	<b>5,421</b>	<b>8,642</b>	<b>8,189</b>	<b>7,331</b>
<b>FCF</b>					
Capex ( % of sales )	1,155	1,650	260	1,205	1,374

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
<b>Solvency Ratios</b>					
Debt / Equity	0.00	0.00	0.00	0.00	0.00
Net Debt / Equity	-0.38	-0.36	-0.50	-0.41	-0.31
Debt / EBITDA	0.00	0.02	0.01	0.01	0.01
Current Ratio	-2.30	-2.18	-2.68	-1.93	-1.29
<b>DuPont Analysis</b>					
Sales/Assets	0.43	0.39	0.45	0.51	0.57
Assets/Equity	1.27	1.38	1.35	1.32	1.30
RoE	13.75%	13.42%	13.93%	14.55%	16.04%
<b>Per share ratios</b>					
Reported EPS	9.60	10.25	12.37	15.12	19.84
Dividend per share	3.00	4.00	4.50	5.00	5.50
BV per share	69.78	76.37	88.74	103.86	123.69
Cash per Share	8.54	11.19	15.03	17.71	21.36
Revenue per Share	38.20	41.65	54.21	69.45	90.99
<b>Profitability ratios</b>					
Net Profit Margin (PAT/Net sales)	25.12%	24.60%	22.81%	21.76%	21.80%
Gross Profit / Net Sales	69.45%	71.10%	69.07%	69.58%	69.89%
EBITDA / Net Sales	30.00%	30.70%	30.75%	31.53%	32.11%
EBIT / Net Sales	27.17%	26.20%	26.25%	26.63%	26.85%
ROCE (%)	14.34%	12.11%	13.76%	15.49%	17.42%
<b>Activity ratios</b>					
Inventory Days	218.71	317.37	317.39	317.39	317.39
Debtor Days	63.37	69.71	69.52	69.66	69.66
Creditor Days	53.85	62.03	56.15	54.48	54.48
<b>Leverage ratios</b>					
Interest coverage	35.02	64.93	89.13	121.94	169.57
Debt / Asset	0.0	0.0	0.0	0.0	0.0
<b>Valuation ratios</b>					
EV / EBITDA	40.63	36.30	26.84	20.54	15.55
PE (x)	51.27	48.02	39.79	32.55	24.80
OCF/EBITDA (%)	64.67	82.89	65.77	58.11	53.86

Source: Company, Arianth Research

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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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