# **Arihant**Capital Generating Wealth

# Q4FY23 Result update 26<sup>th</sup> May, 2023

# **Titagarh Railsystems Ltd**

### Strong performance across segments

# **CMP: INR 352**

## **Rating: BUY**

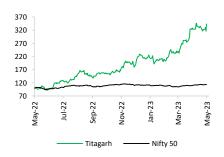
# **Target Price: INR 495**

Stock Info	
BSE	532966
NSE	TWL
Bloomberg	TWL:IN
Reuters	TITW.NS
Sector	Capital Goods
Face Value (INR)	2
Equity Capital (INR mn)	239
Mkt Cap (INR mn)	42,089
52w H/L (INR)	365 / 93.4
Avg Yearly Volume (in 000')	178.3

### **Shareholding Pattern %**

(As on Mar, 2023)			
Promoters			47.82
DII			6.61
FII			6.07
Public & Others			39.49
Stock Performance (%)	3m	6m	12m
TITAGARH	69.3	97.4	243.6
NIFTY	5.3	-1.0	13.3

# **Titagarh vs Nifty**



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Titagarh Rail Systems reported strong numbers, Q4FY23 revenue stood at INR 9,742mn (+130.8% YoY/+27.1% QoQ); above our estimates of INR 6,781mn, backed by strong order book execution across segments. Gross Profit stood at INR 2,268mn (+86.3% YoY/+41.8% QoQ), above our estimates of INR 1,695mn. Gross margins contracted by 556 bps YoY (up by 241 bps QoQ) to 23.3% vs 28.8% in Q4FY22. The margin contraction is mainly because of the raw material cost increase in terms of sales. The raw material cost in terms of sales stood at 76.7% vs 71.2% in Q4FY22. EBITDA stood at INR 955mn (+107.9% YoY/+31.4% QoQ); above our estimates of INR 610mn. EBITDA margin contracted by 108 bps YoY (up by 32 bps QoQ) to 9.8% vs 10.9% in Q4FY22. PAT stood at INR 480mn (+113.6% YoY/+50.6% QoQ); above our estimates of INR 279mn. PAT margin contracted by 40 bps YoY (up by 77 bps QoQ) to 4.9% vs 5.3% in Q4FY22.

Freight Rail Systems revenue stood at INR 8,081mn (+124.9% YoY/+32.1% QoQ); EBIT Stood at INR 853mn (+80.7% YoY/+35.6% QoQ). EBIT margin contracted by 258 bps YoY (up by 27 bps QoQ) to 10.6% vs 13.1% in Q4FY22. The company is currently executing 700 wagons per month and focused on higher utilizations backed by supply chain efficiencies. Passenger Rail Systems revenue stood at INR 1,661mn (+164.4% YoY/+7.3% QoQ); EBIT Stood at INR 100mn (+239.6% YoY/+95.8% QoQ). EBIT margin improved by 133 bps YoY (up by 273 bps QoQ) to 6% vs 4.7% in Q4FY22. The company is making 5-6 cars per month and focused to reach 20 cars per month in FY24 and focused on 70 cars per month over the medium term. The backward integration of propulsion systems will improve the margins going forward.

#### **Key Highlights**

Strong order book shows potential business visibility: The order book stood at INR 275.46bn (~9.9x of FY23 revenue) showing potential business visibility. Freight rolling stocks order book stood at INR 148.3bn and Passenger Rolling stocks order book stood at INR 127.16bn. Vandhe Bharat's order book share stood at ~INR 117.81bn. Wheels order book share stood at INR 63bn and the remaining order book of INR 94.65bn is for freight wagons and metro and others.

Capex and Supply chain efficiencies lead to ramp-up execution: The Capex is around INR 10bn, INR 2.5bn already incurred in past years, and the remaining is expected next 3-4 years. Capex is funding through part of internal accruals and debt. Wagon manufacturing capacity stood at 8,400 wagons per annum and is expected to reach 12,000 wagons per annum. Foundry capacity stood at 30,000 MT and is expected to reach 50,000 MT in the next two years. Passenger rolling stock capacity stood at 250 coaches per annum and is expected to reach 850 coaches per annum going forward. The capacity expansion with the availability of wheelsets and supply chain efficiencies lead to a ramp-up in the execution of orders.

Wheels and Vandhe Bharat trains will be the key trigger: Titagarh - RK Forgings bagged orders from the Ministry of Railways to supply ~1.54 million forged wheels of different rolling stocks of Indian Railways over a period of 20 years at about 80,000 wheels per annum. The order worth is around INR 122.6bn, spread over 20 years. Titagarh - BHEL has bagged 80 Vandhe Bharat train supplies and maintenance. First prototype is expected in the next 24 months and commercial supply will begin afterward. The opportunity size is around INR 231bn and Titagarh's share is around 51%. The supply of Vandhe Bharat trains revenue is expected INR 96bn and maintenance revenue is expected around 4.1% of sales over 35 years.

Outlook & Valuation: Titagarh Railsystems has a strong order book (~9.9x of FY23 revenue), well positioned to benefit from freight wagons, Vandhe Bharat Trains, Metros, and global wagon tenders, Italy's business net profitability is expected in FY24, Capacity expansion, backward integration, New orders for Vandhe Bharat Trains and Wheelsets will drive business growth going forward. In Base Case, Revenue is expected to grow at CAGR 38.7% over the period of FY23-FY25E, RoE is expected to improve from 14.9% (FY23) to 24.5% in FY25E. The stock is trading at 19.4x of its FY24E EPS. In Base Case Scenario, At the CMP of INR 352 per share, We maintain our "BUY" rating and valued the stock at 18x of its FY25E EPS, and arrived at a price objective of INR 495, an upside of 40.7%. On our price objective of INR 495, the stock would trade at 11x FY25E EV/EBITDA.

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# **Titagarh Railsystems Ltd**

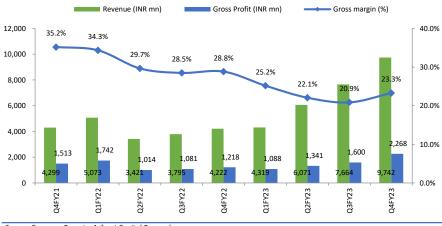
### Q4FY23 Results

## Income statement summary

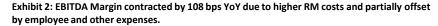
Income statement summary				24 24 (a/)	(c)
Particular (INR Mn)	Q4FY22	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
Revenue	4,222	7,664	9,742	130.8%	27.1%
Net Raw Materials	3,004	6,064	7,474	148.8%	23.2%
Employee Cost	130	142	169	29.7%	19.2%
Other Expenses	628	731	1,144	82.3%	56.5%
EBITDA	459	727	955	107.9%	31.4%
EBITDA Margin (%)	10.9%	9.5%	9.8%	-108 bps	+32 bps
Depreciation	56	54	64		
Interest expense	157	230	222		
Other income	40.1	104.4	69.8		
Share of profits associate & JV	-	(74)	(37)		
Profit before tax	287	473	702		
Taxes	63	154	222		
РАТ	225	319	480	113.6%	50.6%
PAT Margin (%)	5.3%	4.2%	4.9%	-40 bps	+77 bps
Other Comprehensive income	19.9	(11.9)	(2.8)		
Net profit	245	307	477	95.1%	55.6%
Net profit Margin (%)	5.8%	4.0%	4.9%	-90 bps	+90 bps
EPS (INR)	1.9	2.7	4.0		

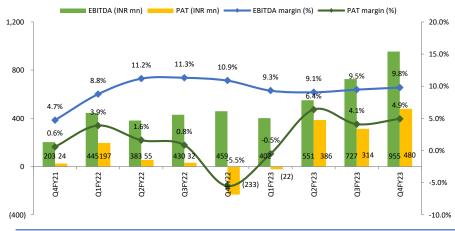
Source: Company Reports, Arihant Capital Research

#### Exhibit 1: Gross margins contracted by 556 bps YoY to 23.2% due to higher RM costs.



Source: Company Reports, Arihant Capital Research





Source: Company Reports, Arihant Capital Research

#### **Q4FY23 Concall Highlights**

#### Wheelsets

- Titagarh RK Forgings bagged orders from the Ministry of Railways to supply ~1.54 million forged wheels of different rolling stocks of Indian Railways over a period of 20 years at about 80,000 wheels per annum. The order worth is around INR 122.6bn, spread over 20 years. The company has 50:50 partnerships with RK Forgings.
- The green field plant is expected to be set up with INR 10bn capex. The capacity is expected around 2 lakh wheels per annum. Around 80,000 wheels goes for Indian railways (~40% of capacity) and the remaining for captive consumption, domestic sales, and exports. The wheels plant will reduce import dependence from China, Ukraine, and other countries.

### Vandhe Bharat trains

Titagarh – BHEL has bagged 80 Vandhe Bharat train supplies and maintenance. First prototype is expected in the next 24 months and commercial supply will begin afterward. The opportunity size is around INR 231bn and Titagarh's share is around 51%. The supply of Vandhe Bharat revenue is expected INR 96bn and maintenance revenue is expected around 4.1% of sales over 35 years.

#### Order book

- The order book stood at INR 275.46bn (~9.9x of FY23 revenue) showing potential business visibility. Freight rolling stocks order book stood at INR 148.3bn and Passenger Rolling stocks order book stood at INR 127.16bn.
- Shipbuilding and other small business merged into freight rail systems.

#### Capex

 The Capex is around INR 10bn, INR 2.5bn already incurred in past years, and the remaining is expected next 3-4 years. Capex is funding through part of internal accruals and debt.

#### **Passenger Rail Systems**

 In passenger rail systems, the company is making 5-6 coaches per month and focused to reach 20 coaches per month in FY24. The company focused on reaching 70 coaches per month over the medium term. Out of 70 coaches, 35 coaches are for metro cars and the remaining for Vandhe Bharat trains.

#### Margins

• EBITDA margin is expected around 8% to 10% going forward.

### **Freight Rail Systems**

 The company currently manufactures 700 wagons per month and is focused to achieve 1,000 wagons per month going forward.

#### **Titagarh Firema**

 Titagarh Firema is expected to be EBITDA positive in FY24. Headwinds remain strong in Europe.

#### Metros

- Bangalore metro coaches production is expected to start from Q3FY24.
- The Pune metro project has completed around 50% in FY23 and the remaining is expected to complete in FY24. The Pune metro project has 34 trains and each train has 3 coaches.
- Pune metros are aluminum coaches and Vandhe Bharat trains are stainless steel coaches.

#### **Other Highlights**

- Passenger rail car realization is around INR 10mn.
- All the large projects have price variation clauses.
- 50,000 wagon global tender is expected to come in the coming months.

Scenario Analysis			
Exhibit 3: Scenario Analysis	EV22	EV24E	EVOLE
Bull Case (INR mn) Freight Rail Systems	<b>FY23</b> 22,509	<b>FY24E</b> 32,000	<b>FY25E</b> 43,200
Passenger Rail Systems	5,287	13,680	20,520
Shipbuilding, Bridges and Defence		670	683
Total Revenue	27,796	46,350	64,403
Base Case (INR mn)	FY23	FY24E	FY25E
Freight Rail Systems	22,509	29,070	36,480
Passenger Rail Systems	5,287	10,200	16,320
Shipbuilding, Bridges and Defence Total Revenue	27,796	670 <b>39,940</b>	683 <b>53,483</b>
	27,750	33,340	33,403
Bear Case (INR mn)	FY23	FY24E	FY25E
Freight Rail Systems	22,509	25,380	33,300
Passenger Rail Systems	5,287	8,640	13,440
Shipbuilding, Bridges and Defence		670	683
Total Revenue Source: Company, Arihant Capital Research	27,796	34,690	47,423
source. company, Annanc capital Research			
Valuation			
Exhibit 4: Bull Case Scenario			
Particular (INR mn)	FY23	FY24E	FY25E
Revenue	27,796	46,350	64,403
EBITDA	2,635	4,279	6,145
EBITDA Margin (%)	9.5%	9.2%	9.5%
PAT	1,157 4.2%	2,627	4,102
PAT Margin (%) EPS (INR)	4.2%	5.7% 22.0	6.4% 34.3
	11.5	22.0	54.5
Valuation - P/E (FY25E)			
EPS (INR)			34.3
P/E (x)			20.0
Target Price (INR)			686
CMP (INR)			352
Upside/Downside (%) Source: Company, Arihant Capital Research			94.9%
Exhibit 5: Base Case Scenario			
Particular (INR mn)	FY23	FY24E	FY25E
Revenue	27,796	39,940	53,483
EBITDA	2,635	3,687	5,103
EBITDA Margin (%)	9.5%	9.2%	9.5%
PAT	1,157	2,168	3,291
PAT Margin (%)	4.2%	5.4%	6.2%
EPS (INR)	11.3	18.1	27.5
Valuation - P/E (FY25E)			
EPS (INR)			27.5
P/E (x)			18.0
Target Price (INR)			495
CMP (INR)			352
Upside/Downside (%)			40.7%
Source: Company, Arihant Capital Research			
Exhibit 6: Bear Case Scenario Particular (INR mn)	FY23	FY24E	FY25E
Revenue	27,796	34,690	47,423
EBITDA	2,635	3,203	4,525
EBITDA Margin (%)	9.5%	9.2%	9.5%
PAT	1,157	1,793	2,841
PAT Margin (%)	4.2%	5.2%	6.0%
EPS (INR)	11.3	15.0	23.8
Valuation D/E (EV2EE)			
Valuation - P/E (FY25E) EPS (INR)			23.8
P/E (x)			16.0
Target Price (INR)			380
CMP (INR)			352
Upside/Downside (%)			8.0%
Source: Company, Arihant Capital Research			

Source: Company, Arihant Capital Research Note: Valuations are based on FY25E, Titagarh Wagons has first mover advantage in wheelsets and expected to supply 80,000 wheels per annum to railways and remaining to private & exports. The wheels revenue is expected to start from FY26E onwards. Vandhe Bharat prototype is expected to supply in next 24 months and revenue is expected from FY26E onwards.

## **Sensitivity Analysis**

Freight Rail Systems Revenue (INR mn) - FY24E

	<u> </u>				Freig	sht Wagon R	ealization (I	NR mn/Wag	on)			
	29,070	3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4	4.5
	6,000	21,000	21,600	22,200	22,800	23,400	24,000	24,600	25,200	25,800	26,400	27,000
	6,400	22,400	23,040	23,680	24,320	24,960	25,600	26,240	26,880	27,520	28,160	28,800
	6,800	23,800	24,480	25,160	25,840	26,520	27,200	27,880	28,560	29,240	29,920	30,600
les	7,200	25,200	25,920	26,640	27,360	28,080	28,800	29,520	30,240	30,960	31,680	32,400
Volum	7,600	26,600	27,360	28,120	28,880	29,640	30,400	31,160	31,920	32,680	33,440	34,200
Š	8,000	28,000	28,800	29,600	30,400	31,200	32,000	32,800	33,600	34,400	35,200	36,000
Wagon	8,400	29,400	30,240	31,080	31,920	32,760	33,600	34,440	35,280	36,120	36,960	37,800
Ň	8,800	30,800	31,680	32,560	33,440	34,320	35,200	36,080	36,960	37,840	38,720	39,600
	9,200	32,200	33,120	34,040	34,960	35,880	36,800	37,720	38,640	39,560	40,480	41,400
	9,600	33,600	34,560	35,520	36,480	37,440	38,400	39,360	40,320	41,280	42,240	43,200
	10,000	35,000	36,000	37,000	38,000	39,000	40,000	41,000	42,000	43,000	44,000	45,000

# Freight Rail Systems Revenue (INR mn) - FY25E

					Freig	ht Wagon R	ealization (I	NR Mn/Wag	;on)			
	36,480	3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4	4.5
	6,300	22,050	22,680	23,310	23,940	24,570	25,200	25,830	26,460	27,090	27,720	28,350
	6,800	23,800	24,480	25,160	25,840	26,520	27,200	27,880	28,560	29,240	29,920	30,600
	7,300	25,550	26,280	27,010	27,740	28,470	29,200	29,930	30,660	31,390	32,120	32,850
nes	7,800	27,300	28,080	28,860	29,640	30,420	31,200	31,980	32,760	33,540	34,320	35,100
Volumes	8,300	29,050	29,880	30,710	31,540	32,370	33,200	34,030	34,860	35,690	36,520	37,350
2 2	8,800	30,800	31,680	32,560	33,440	34,320	35,200	36,080	36,960	37,840	38,720	39,600
Wagon	9,300	32,550	33,480	34,410	35,340	36,270	37,200	38,130	39,060	39,990	40,920	41,850
Wa	9,800	34,300	35,280	36,260	37,240	38,220	39,200	40,180	41,160	42,140	43,120	44,100
	10,300	36,050	37,080	38,110	39,140	40,170	41,200	42,230	43,260	44,290	45,320	46,350
	10,800	37,800	38,880	39,960	41,040	42,120	43,200	44,280	45,360	46,440	47,520	48,600
	11,300	39,550	40,680	41,810	42,940	44,070	45,200	46,330	47,460	48,590	49,720	50,850

## Passenger Rail Systems Revenue (INR mn) - FY24E

					Ro	olling Stocks	Realization	(INR mn/ca	r)			
	10,200	60	65	70	75	80	85	90	95	100	105	110
	74	4,440	4,810	5,180	5,550	5,920	6,290	6,660	7,030	7,400	7,770	8,140
	84	5,040	5,460	5,880	6,300	6,720	7,140	7,560	7,980	8,400	8,820	9,240
les	94	5,640	6,110	6,580	7,050	7,520	7,990	8,460	8,930	9,400	9,870	10,340
Volumes	104	6,240	6,760	7,280	7,800	8,320	8,840	9,360	9,880	10,400	10,920	11,440
	114	6,840	7,410	7,980	8,550	9,120	9,690	10,260	10,830	11,400	11,970	12,540
Stocks	124	7,440	8,060	8,680	9,300	9,920	10,540	11,160	11,780	12,400	13,020	13,640
St	134	8,040	8,710	9,380	10,050	10,720	11,390	12,060	12,730	13,400	14,070	14,740
Rolling	144	8,640	9,360	10,080	10,800	11,520	12,240	12,960	13,680	14,400	15,120	15,840
8	154	9,240	10,010	10,780	11,550	12,320	13,090	13,860	14,630	15,400	16,170	16,940
	164	9,840	10,660	11,480	12,300	13,120	13,940	14,760	15,580	16,400	17,220	18,040
	174	10,440	11,310	12,180	13,050	13,920	14,790	15,660	16,530	17,400	18,270	19,140

# Passenger Rail Systems Revenue (INR mn) - FY25E

					Ro	olling Stocks	Realization	(INR Mn/ca	r)			
	16,320	60	65	70	75	80	85	90	95	100	105	110
	160	9,600	10,400	11,200	12,000	12,800	13,600	14,400	15,200	16,000	16,800	17,600
	168	10,080	10,920	11,760	12,600	13,440	14,280	15,120	15,960	16,800	17,640	18,480
nes	176	10,560	11,440	12,320	13,200	14,080	14,960	15,840	16,720	17,600	18,480	19,360
Volumes	184	11,040	11,960	12,880	13,800	14,720	15,640	16,560	17,480	18,400	19,320	20,240
	192	11,520	12,480	13,440	14,400	15,360	16,320	17,280	18,240	19,200	20,160	21,120
Stocks	200	12,000	13,000	14,000	15,000	16,000	17,000	18,000	19,000	20,000	21,000	22,000
St	208	12,480	13,520	14,560	15,600	16,640	17,680	18,720	19,760	20,800	21,840	22,880
Rolling	216	12,960	14,040	15,120	16,200	17,280	18,360	19,440	20,520	21,600	22,680	23,760
<sup>2</sup>	224	13,440	14,560	15,680	16,800	17,920	19,040	20,160	21,280	22,400	23,520	24,640
	232	13,920	15,080	16,240	17,400	18,560	19,720	20,880	22,040	23,200	24,360	25,520
	240	14,400	15,600	16,800	18,000	19,200	20,400	21,600	22,800	24,000	25,200	26,400



- Base Case Scenario

- Bear Case Scenario

Source: Company, Arihant Capital Research

# Industry Wagon Volumes – Indian Railways (RSP)

Wagon Volumes (company wise)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Titagarh Wagons	559	447	620	810	591	571	1,183	1,522	1,666
Jupiter Wagons	503	560	334	388	461	326	512	830	755
Texmaco	270	209	135	258	66	29	339	913	1,046
Modern	296	215	178	264	132	250	408	-	44
H.E.I	166	222	119	91	11	203	481	923	735
Besco (WD)	80	62	113	104	-	105	219	290	320
Besco (FD)	-	-	-	-	-	-	-	85	215
Oriental	42	-	-	-	-	-	-	171	232
Amtek	-	5	-	-	-	-	17	-	-
СІММСО	9	-	-	-	-	-	-	-	-
CEBBCO	65	-	2	-	-	-	-	-	-
Jindal	-	-	-	-	-	-	-	-	-
Braithwaite	273	158	278	198	458	358	250	385	458
SRBWIL	-	-	35	88	161	101	170	206	207
Total Industry Wagons	2,263	1,878	1,814	2,201	1,880	1,943	3,579	5,325	5,678

Volume Share (%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Titagarh Wagons	24.7%	23.8%	34.2%	36.8%	31.4%	29.4%	33.1%	28.6%	29.3%
Jupiter Wagons	22.2%	29.8%	18.4%	17.6%	24.5%	16.8%	14.3%	15.6%	13.3%
Texmaco	11.9%	11.1%	7.4%	11.7%	3.5%	1.5%	9.5%	17.1%	18.4%
Modern	13.1%	11.4%	9.8%	12.0%	7.0%	12.9%	11.4%	0.0%	0.8%
H.E.I	7.3%	11.8%	6.6%	4.1%	0.6%	10.4%	13.4%	17.3%	12.9%
Besco (WD)	3.5%	3.3%	6.2%	4.7%	0.0%	5.4%	6.1%	5.4%	5.6%
Besco (FD)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%	3.8%
Oriental	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.2%	4.1%
Amtek	0.0%	0.3%	0.0%	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%
CIMMCO	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CEBBCO	2.9%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Jindal	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Braithwaite	12.1%	8.4%	15.3%	9.0%	24.4%	18.4%	7.0%	7.2%	8.1%
SRBWIL	0.0%	0.0%	1.9%	4.0%	8.6%	5.2%	4.7%	3.9%	3.6%

Source: Ministry of Railways, Arihant Capital Research; Volumes as per RSP (Indian Railways), Private supply wagons volume not included.

### Wagon Industry Note

Railway Sector Note Ou	314 Mar 2023 Wagons Industry Note Wagens are graving upon the right trust.	ArihantCapital Generating Wealth	Plant Visit Note 19 <sup>th</sup> Apr, 2023 Titagarh Wagons Wagons on cards	ArihantCapi	
Railway Sector Note Ou	on Budget 2023-24, Railway capital outlay is INR 2.4 lakk or which is to of the 2013-54 capital lay. The wayon marafacturing is ramping up due to demand for freight & passenger wayons. es a subt in commercial vehicles to Ball for transportation. Recently, National transporters	CMP- IND 205	inguo circa di		And the formula of the second s
Railway Sector Note Ou	ley. The wagon manufacturing is ramping up due to demand for freight & passenger wagons, re is a shift in commercial vehicles to itali for transportation. Recently, National transporters		We visited Titagarh freight wagon's and Ship building plant at Titagarh,	Railway Theme	Ready to leave station.
			Kolkata and Rolling stocks, Propulsion systems and traction motor plant	"NP and National Rol Plan	Indian railway system is 4 <sup>th</sup> largest in the world, behind only US, Russia, and China. India is the 4 <sup>th</sup> largest rail freight carrier in the world. Indian railways are the single largest
THE REAL PROPERTY AND INCOME.	ed a demand for 90,000 wagons and awarded 72,358 wagons to 7 manufacturers. Further, industry is expected to manufacture around 30,000 wagons in the next 2 to 3 years. The	Rating: BUY	at Uttarpara, Kolkata. Also we interacted with Mr. Saket Kandoi – Freight Rolling Stock COO, Mr. Mrinal Kanti Das – Freight Wagon Plant	infrastructure is expected to grow 25%. YoV from INR 50 lakh to INR 562 lakh or	employer in India and the 8 <sup>th</sup> largest in the world. The Rafway Capex is witnessing an uptick and remain robust for the next decade. In the FI22 budget, the government has
CH-5.22	errment is coming up with 50 000 advanced tech wagons in global tenders and each wagon	Target Price: INR 470	Head, Mr. Dilip Jadeja – Passenger Rolling Stock COO, Mr. Veerakumar Sivasubramanian – Passenger Rolling Stock Plant Head, Mr. Sai	over the period of FY23-FY30". from Alter FY22 Annual report.	allotted INR 1.1 lakh or to the Ministry of Railways (MoA). The railway investments moving towards dedicated freight corridors, network decongestion, bullet train, high-speed, and
	t around INR 7mm to INR 10mm. It will be a game changer in the wagons business. The wagon sufacturers are in full swing mode for manufacturing and operating at full 70% - 90%	Stock Info	Subramaniam – Propulsion Plant Head, Mr. Saurav Singhania – It CFO &	"Railways will develop new products	semi-high-speed train projects. The "Atmanirbhar Bharat" initiative for the development of
and the second s	acity compared to 40% in past years. The railways currently operate 3,00,000 wagons and	85E 532966	Group Finance Controller, Mr. Anil Kumar Agarwal – Director (Finance),	and efficient logistics services for movement of passels. 'One Station-	alternative high-tech machines, that are needed to build high-speed rails. The national rail plan for 2030, indian railways is expected to reach a future-ready railway system by 2030.
	v wagons are expected to add going forward. The wagon manufacturing was impacted due wallability of wheel sets. Indian wagon manufacturers majorly procure wheelsets from China	NSE TWL	CFO & CBRO and other Titagarh members.	movement of parcels. 'One Station- One Product' concept will be	plan for 2030, Indian railways is expected to reach a future-ready railway system by 2030 to bring down logistics cost and ensure 100% electrification in rail routes by FY23E. The
STREET, STREET	ch was impacted due to supply chain issues. Post-Dec-22, wagon manufacturing ramped up	Bloomberg TWL:IN	Key Highlights	popularized to help local businesses &	railway infrastructure investment is expected around INR 50 lakh or between 2018 to 2030.
	to the normalization of wheelset supplies.	Reutera TITW.NS	Strong revenue visibility backed by order book: The company has an	supply chains". from incon FY22 Annual report.	
ALL AND A DECEMPTION OF A DECE	waton manufacturers' revenue is expected to grow at a 25% CAGR over the period of FY22-	Sector Capital Goods	order book of 25,000 wagons and around 8,000 - 10,000 wagons are		The increasing income in urban and rural areas has made rail travel affordable to a large number of Indians. The improvement in rural connectivity will be the major driver for the
	SE, backed by strong order inflows from the indian railway along with an increase in orige	Face Value (INR) 2	expected to complete in FY24 at optimum utilization levels. We are	Big apportunity in Vondhe Bharat Trains: "800 Vandhe Bharat Trains are	growth. In release, around 350 new stations are coming up will be a big booster for
	wagon. Ramping up capacity utilization and better absorption of fixed costs led to EBITDA	Equity Capital (INR mn) 239	expecting around INR 39bn - INR 40bn revenue in FY24E on a	coming up and 75 Vandhe Bharat	passenger and freight growth and opportunities for railway companies. The urban
m	gin improvement of 200 bps for top wagon manufacturers over the period of FY22-FY25E.	Mkt Cap (INR mn) 35,273	conservative basis. The company is manufacturing around 600 wagons per month and focused to manufacture 1,000 wagons per month from	Trains are expected to complete by Aue-2022".	population is expected to reach 543 mn by FY25 will further accelerate rail travel in India.
	gon manufacturer's Debt/EBITDA is expected to reduce from "4x to less than 2x going ward. The debt coverage metrics are expected to improve along with steady improvement of	52w HA (INR) 310/93.4	September onwards due to improvement in supply chain efficiencies.		National Infrastructure investments are nearly INR 75 lakh or of projects under execution
	mues and margins. Overall, Wagon manufacturers' credit profile is likely to improve over	Ann Versch: Malarma De	The plant is making around 32-34 wagons per day and is focused to reach	ATP opportunity under Kavach: "Under Kavach, Automatic Train	and the National infrastructure Plan outlined by the Government investment of INR 111
the	medium term.	0007) 178.3	40 wagons per day. Out of 40 wagons, 25 are BOXNHL wagons and 15 are	Protection (ATP) system, will be deployed across the entire roll network	lakh cr over the period of FY20-FY25E. Transport, Energy, and water projects account for
Th	price per waron is currently in the range of INR 3.3mn to INR 4.5mn based on waron	Shareholding Pattern %	Covered Wagons. There is a structural change in wagons and rail systems	beginning with 2,000 km in FY28 and	"BO% of NIP spending of planned of INR 111 lakh cr. More than 50% of NIP projects are
	dels. Private wagon's price is INR 4lakh to INR Slakh higher than railway wagons which is	(As on Dec, 2022)	due to make in India. The industry is expected manufacture 20,000 to 30,000 wagons per annum and Titagarh is expected to capture 30%-35%	will be rolled out in 4,000 to 5,000 km	under construction and EPC has the opportunity at INR 42 lakh or highest in the transport section. The redevelopment opportunity in railways has INR 1 lakh or with commercial
	re than 30%. Private wagons are fixed price contracts, so wagon manufacturers are taking	Promoters 47.82	so,000 wagons per annum and magarinis expected to capture solorsons share over medium term.	every subsequent year".	development accounting for "70% of development. Around 400 stations have been
	6-30% advance from customers to fix the raw material prices. The private wagon order oution period is around 9-32 months, Railway wagon contracts are pass-through to	DII 6.78		Opportunity in Corgo Terminols: "100	identified by the railways and 1 <sup>st</sup> station Habibganj has completed construction. The
cu	tomers. Steel and labor cost is pass-through based on WPI. The rise in power demand leads	FII 5.27	First mover advantage in wheelsets: Titagarh Wagons bagged orders	PM-Gatishakti Cargo Terminals in coming three years".	station redevelopment scheme is expected to be implemented under the PPP program.
	n increase in coal transportation. The wagon demand is witnessed from Cement, Steel, Coal,	Public & Others 40.10	from the Ministry of Railways to supply "1.54 million forged wheels of		The railway infra players have the potential opportunity due to 400 Vandhe Sharat Trains;
	Mining industries. Wagon transport is more convenient and economical than commercial inter-		different rolling stocks of Indian Railways over a period of 20 years at about 77,000 wheels per annum. The order worth is around INR 122.3bn.	Opportunities in redevelopment and new stations: "The redevelopment of	75 Vandhe Bharat trains are expected to be complete by Aug-2023, 100 PM Gatishakti
		Stock Performance (%) 3m 6m 12m 33,7 77,8 183,6	spread over 20 years. The company has 50:50 partnerships with RK	123 railway stations along with real estate development is estimated INR	Cargo Terminals, 2,000 km coverage under Kavach, Solar power feed in 7,000 stations, 123
	gargh wagon's order book-to-revenue ratio stood at 4.43x (FY22 TTM revenue), which		Forgings. The project costs around INR 10bn and will be funded through	SQ.000rr and amount new 350 stations	stations redevelopment and connectivity to the major ports. The planned capex outlay is expected to finance through budgetary support and remaining from internal sources and
pr	vides revenue visibility. The company has received orders for 24,177 wagons from Indian ways. The order is worth around INR 78bn which is executable in 39 months, Recently,	NIFTY -1.9 2.3 4.4	internal accruals (30%) and long-term debts. The funding is expected to	are coming up".	expected to finance through budgetary support and remaining from internal sources and market borrowings & Institutional finance.
Tit	gargh Wagons and BHEL are L2 at INR 1.398bn per car. The order size is estimated for 80	TWL vs Nifty	complete in the next 2 years. The company is setting up a capacity of 2	Opportunities in Metro roll projects	
	a is around INR 112bn. TRagargh wagons and Raminishna forgings emerged L1 for sufficturing and supplying wheelsets to Indian railways. The supply of ~1.6-million-wheel	200 -	lakh wheels per annum. Around 77,000 wheels are expected to supply to Indian railways and the remaining to others. In the Wheelset plant, the	"Metro rail projects are expected to generate INR 1.7 Jakh or (25% of urban	Doubling of Lines and New lines capex is expected around 46% of total railways capex and
	s of different rolling stocks of Indian Ralways over a period of 20 years at about 80,000	220	breakeven is normally expected at 40,000 to 50,000 wheels.	initia) of opportunities for construction	Rail Vikas Nigam's 50% of business comes from these areas which show the company has a potential business opportunity going forward. Locomotives and Wagons capex is expected
	sels per annum.	280		companies over the period of FY23- EV170*	around 20% of the total railway capex and Titagarh Wagons, Texmaco Rail & Engineering
	ter wagon's order book-to-revenue ratio stood at 3.32x (PY22 TTM revenue), which	150	Casting wheelset cost around INR 2.3 lakhs, while forged wheelsets cost		and Jupiter Wagons are expected to benefit going forward. Muti-tracking capex is expected
	vides revenue visibility. The order book stood at around INR 52bn which comprises 13,800	20	around INR 2.7 lakhs to INR 2.8 lakhs. Forged wheelsets are costiler and	Opportunities in High & Semi high speed roll projects: "Mumbai-	around 19% of total railways capex and Rites is handling 70% of the traction requirements by Indian railways, The company has potential business opportunities going forward.
	ons. The company has placed orders of close to 20,000 wheel sets on foreign supplier. The		stronger than casting wheelsets. On a conservative basis, we assume INR Ziakh per wheel. Titagarh's revenue share is expected around INR 40bn	Ahmedabad high-speed rail project	by Indian raiways, the company has potential dusiness opportunities going forward. Transmission lines capex is expected around 1% of total railways capex, KEC International
	spany is commenced disc brake production with an initial order of INR 800mn. The company perticipated in 40.000 brake discs and expects substantial orders from Indian Ralways. The	* * * * * * * *	to INR 50bn in 5 years which starts from FY26E. The payback period is	sanctioned at a total cost of \$14.52	and Kalpataru Power Transmission are expected to benefit from transmission railways
	participated in 40,000 brake discs and expects substantial orders from Indian Rainways. The spany is targeting commercial EV launch by Oct-Nov this year. The company is targeting 828	TWL Nifty So	expected in 3 years. Wheelsets business margins are expected around		capes. The automatic signalling capes is expected around 2% of railways capes and Railtel
in-	ommercial EV and focused capture a 7% to 10% market share.		15% going forward. Titagarh -RK forgings is expected to export wheelsets	"Pune-Nachisk semi high-speed rail project sanctioned at a total cost of	is well positioned on signalling and modernization of projects. Overall, The railway infra companies are ircon international, KEC international, Rail Vikas Nigam, Titagarh Wagons,
Abhahek Jain abhahek Jain Barthantoapital.com Te	maco Rail's order book-to-revenue ratio stood at 4.85x (FY22 TTM revenue), which provides	Abhishek Jain	after a few years, which will be a potential opportunity.	INR 16,039 of .	Texmaco Rail & Engineering, Rites, Railtel, Kalpataru Power Transmission, Jupiter Wagons,
	maco hair's order book-to-revenue ratio stood at 4.85k (FT22 TTM revenue), which provides mue visibility. The company has received orders for 20,067 wagons from Indian railways.	abhishek.jain@arihantcapital.com 022-422548871	Backward Integration will lead to margin improvement: The backward	Abhidesk Jain	Kernex Micro Systems are expected to be beneficial on Railway capex theme going
Th	order is worth around INR 64.5bn which is executable in 39 months. The company is		integration of traction motor and propulsion systems will lead to margin	abhishek jain glarihart capital.com	forward. All the Railways infra companies are maintaining at least 2X of the order book to
bala@arhantcapital.com CU	rently making 300 to 350 wagons per month. The company has a requirement to supply 550 sons per month and is focused to deliver 675 wagons per month. Foundry is espected to	Balasubramanian A	improvements.	022-422548871	the revenue which shows potential business visibility going forward.
	ons per month and is focused to deliver 6/5 wagons per month. Foundry is expected to ch maximum capacity in the next 4 to 6 months. The company has focused on small-duration	bala@arihantcapital.com 022-67114780	1) Propulsion: BHEL is having development order for propulsion	Balasubramanian A	
	tracts. The Rall EPC contracts are generally 9 - 18 months and a maximum of 24 months.	1044 Ter 2 200 FBR	and BHEL is a major supplier for Indian Railways. Titagarh wagons	balagi a thant capital.com	
Arihant Capital Markets Ltd	Arihant Capital Markets Limited Research Andres SIII Registration No: N-000002764		propulsion is under the testing stage. Arihant Capital Markets Limited Issues Analysi Still Registration No. 10-000002764	Arihant Capital Markets Ltd	Arihant Capital Markets Limited Insearch Analysi MRI Replaceton No. (Re000000716)
Semilarit Capitali Marages Ltd	1053, Solitate Corporate Park, Bilg No.35, 1 Plans, Andreaf Shalkope Link Rd, Chasale, Andreaf (R), Municel 60008	Arihant Capital Markets Ltd	2013, Saliate Capital Middrices Entrated Research Analysi Site Residuation No. Bercooke2764 2013, Saliate Capital Peri, Roy No.15, 17 Proc. Andrei Gladoger Lin Ad, Chatala, Andrei (1), Munial 60088	Admant Capital Markets Ltd	1011, Sellarie Corporate Park, Bilg No. 30, 17 Plane, Anahori Chatlogua Link Nd, Chatada, Anahori (E), Murelan 800000

Source: Arihant Capital Research

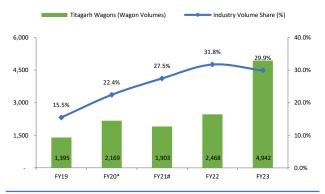
Source: Arihant Capital Research

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Source: Arihant Capital Research

# Industry Wagon Volumes – Indian Railways (RSP)

# Exhibit 7: Titagarh Wagons ramped up production and maintains ~30% volume share as of FY23.



Source: Ministry of Railways, Industry, Arihant Capital Research

Exhibit 9: JWL has ramped-up Private wagon manufacturing in FY23 and reduced railway volumes. Private wagons are yielding higher realizations compared to Indian railway wagons.



Source: Ministry of Railways, Industry, Arihant Capital Research

# Exhibit 11: Texmaco ramped up production and maintains 14% volume share as of FY23.



Source: Ministry of Railways, Industry, Arihant Capital Research

# Exhibit 8: Titagarh Wagons volumes increased by ~3x over the period of Q4FY21-Q4FY23.



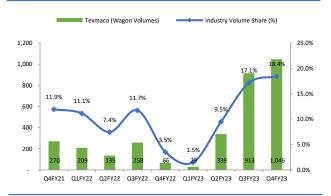
Source: Ministry of Railways, Industry, Arihant Capital Research

# Exhibit 10: Jupiter Wagons volumes increased by ~1.5x over the period of Q4FY21-Q4FY23.



Source: Ministry of Railways, Industry, Arihant Capital Research

# Exhibit 12: Texmaco volumes increased by ~3.9x over the period of Q4FY21-Q4FY23.



Source: Ministry of Railways, Industry, Arihant Capital Research

# **Titagarh Railsystems Ltd**

# **Financial Statements**

### Income statement summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	17,663	15,206	14,675	27,796	39 <i>,</i> 940	53,483
Net Raw Materials	11,515	9,934	10,476	21,499	30,754	40,968
Employee Cost	1,518	2,106	454	565	879	1,177
Other Expenses	3,421	2,360	2,096	3,096	4,620	6,235
EBITDA	1,209	806	1,649	2,635	3,687	5,103
EBITDA Margin (%)	6.8%	5.3%	<b>11.2%</b>	9.5%	9.2%	9.5%
Depreciation	(291)	(299)	(184)	(225)	(244)	(301)
Interest expense	(883)	(812)	(573)	(807)	(721)	(631)
Other income	340	249	177	426	320	337
Profit before tax	375	(55)	1,070	1,901	3,042	4,508
Taxes	205	(132)	(292)	(555)	(874)	(1,217)
PAT	580	(187)	778	1,346	2,168	3,291
PAT Margin (%)	3.3%	-1.2%	5.3%	4.8%	5.4%	6.2%
Loss from Discontinued operations	(941)	-	(780)	(89)	-	-
Net PAT	(361)	(187)	(2)	1,257	2,168	3,291
Other Comprehensive income	53	81	57	(100)	-	-
Net profit	(309)	(106)	55	1,157	2,168	3,291
EPS (INR)	5.0	(1.6)	6.5	11.3	18.1	27.5

Source: Company Reports, Arihant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity capital	231	239	239	239	239	239
Reserves	7,435	8,167	8,182	9 <i>,</i> 396	11,565	14,855
Net worth	7,666	8,406	8,421	9,636	11,804	15,095
Minority Interest	789	-	1	-	-	-
Provisions	1,017	814	912	112	875	1,172
Debt	7,644	8,584	9,316	3,608	5,108	5,408
Other non-current liabilities	1,441	1,868	145	417	599	802
Total Liabilities	18,556	19,672	18,796	13,772	18,386	22,477
Fixed assets	8,254	8,330	8,790	6,200	8,479	10,684
Capital Work In Progress	-	162	152	123	106	131
Other Intangible assets	381	536	646	16	16	16
Investments	799	923	765	1,006	799	802
Other non current assets	789	739	1,419	1,714	1,997	2,674
Net working capital	4,615	7,034	5,729	3,650	5,689	6,501
Inventories	3,763	3,852	5,039	4,614	6,741	8,755
Sundry debtors	2,538	5,672	6,591	2,791	6,018	8,059
Loans & Advances	531.6	-	-	-	-	-
Other current assets	1,944	2,576	2,093	4,953	3,283	2,198
Sundry creditors	(3,512)	(3 <i>,</i> 980)	(4,387)	(3,231)	(5,959)	(6,627)
Other current liabilities & Prov	(649)	(1,085)	(3,606)	(5,478)	(4,393)	(5,883)
Cash	561	1,240	421	1,000	901	999
Other Financial Assets	3,159	706	874	63	399	669
Total Assets	18,556	19,672	18,796	13,772	18,386	22,477

Source: Company Reports, Arihant Capital Research

Du-Pont Analysis						
Y/e 31 Mar	FY20	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	1.5	3.4	0.7	0.7	0.7	0.7
Interest burden (x)	0.4	(0.1)	0.7	0.8	0.9	0.9
EBIT margin (x)	0.1	0.0	0.10	0.09	0.09	0.09
Asset turnover (x)	0.9	0.8	0.6	1.2	1.6	1.8
Financial leverage (x)	2.6	2.5	2.8	2.5	2.3	2.3
RoE (%)	7%	-2%	9%	15%	20%	24%

Source: Company Reports, Arihant Capital Research

# **Financial Statements**

Cashflow summary						
Y/e 31 Mar (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	375	(55)	1,070	1,901	3,042	4,508
Depreciation	291	299	184	225	244	301
Tax paid	205	(132)	(292)	(555)	(874)	(1,217)
Working capital $\Delta$	254	(2,419)	1,305	2,079	(2,039)	(812)
Operating cashflow	1,127	(2,307)	2,267	3,651	373	2,779
Capital expenditure	635	(538)	(633)	2,394	(2,506)	(2,531)
Free cash flow	1,762	(2,845)	1,634	6,045	(2,133)	249
Equity raised	(1,013)	138	(761)	(134)	-	(0)
Investments	155	(124)	158	(241)	207	(3)
Others	(498)	2,347	(957)	1,145	(619)	(946)
Debt financing/disposal	(1,985)	941	732	(5,708)	1,500	300
Other items	945	224	(1,625)	(528)	946	500
Net ∆ in cash	(634)	680	(820)	579	(99)	99
Opening Cash Flow	1,195	561	1,240	421	1,000	901
Closing Cash Flow	561	1,240	421	1,000	901	999
Courses Courses and Aribert		,		_,		

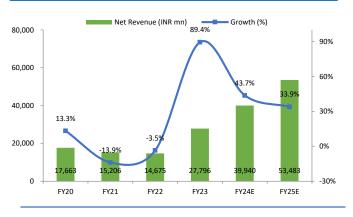
Source: Company Reports, Arihant Capital Research

Ratio analysis						
Y/e 31 Mar	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)						
Revenue growth	13.3%	-13.9%	-3.5%	89.4%	43.7%	33.9%
Op profit growth	45.1%	-33.3%	104.5%	59.8%	39.9%	38.4%
Profitability ratios (%)						
OPM	6.8%	5.3%	11.2%	9.5%	9.2%	9.5%
Net profit margin	3.3%	-1.2%	5.3%	4.8%	5.4%	6.2%
RoCE	11.0%	15.1%	6.6%	12.6%	17.2%	19.0%
RoNW	7.3%	-2.3%	9.2%	14.9%	20.2%	24.5%
RoA	3.1%	-1.0%	4.1%	9.8%	11.8%	14.6%
Per share ratios (INR)						
EPS	(2.7)	(0.9)	0.5	9.7	18.1	27.5
Dividend per share	-	-	-	-	-	-
Cash EPS	7.5	0.9	8.0	13.1	20.2	30.0
Book value per share	66.3	70.4	70.4	80.6	98.7	126.2
Valuation ratios (x)						
P/E	-	-	767.1	36.4	19.4	12.8
P/CEPS	46.7	376.8	43.8	26.8	17.5	11.7
Р/В	5.3	5.0	5.0	4.4	3.6	2.8
EV/EBITDA	38.8	60.1	30.5	16.6	12.3	9.0
Payout (%)						
Dividend payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tax payout	-54.7%	-239.9%	27.3%	29.2%	28.7%	27.0%
Liquidity ratios						
Debtor days	62	99	153	62	40	48
Inventory days	142	140	155	82	67	69
Creditor days	98	95	117	55	46	47
WC Days	106	143	190	88	61	70
Leverage ratios (x)						
Interest coverage	1.0	0.6	2.6	3.0	4.8	7.6
Net debt / equity	0.9	0.9	1.1	0.3	0.4	0.3
Net debt / op. profit	5.9	9.1	5.4	1.0	1.1	0.9

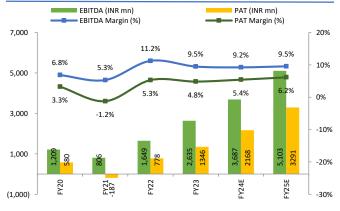
Source: Company Reports, Arihant Capital Research

# **Story in Charts**

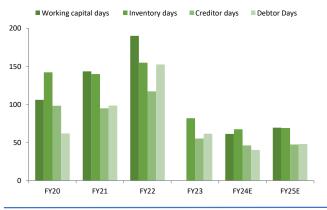
# Exhibit 13: Freight Wagons and rolling stocks are expected to drive revenue.



#### Exhibit 15: Growth in EBITDA & PAT levels



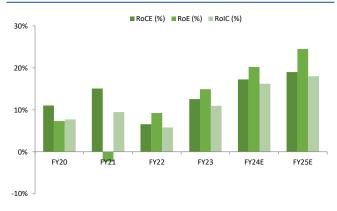
#### Exhibit 17: Working capital days to be improve.



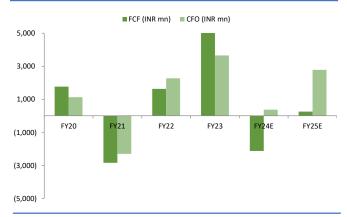
Source: Company Reports, Arihant Capital Research

#### Gross Profit (INR mn) Gross Margin (%) 20,000 60% 50% 16,000 34.7% 34.8% 40% 12,000 28.6% 30% 22.7% 23.0% 3.4 8.000 20% 4,000 12,515 10% 6,148 5,272 6,297 9,186 4,199 0 0% FY25E FY20 FY21 FY22 FY23 FY24E

#### Exhibit 16: Return ratios to be improve



### Exhibit 18: Cash flows to be improve.



#### Exhibit 14: Gross margins are expected to improve going forward.

Q4FY23 Result update

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

SELL

REDUCE

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-5% to -12%

<-12%

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