Emerging Market Leaders & Multibaggers Portfolio Review

Presented by:

Daljeet Singh Kohli, CIO

Tel: + 91 22 6639 3000 | Email: daljeet@stockaxis.com

Multibaggers Overall Performance

	3 months	6 months	1 year	Since Inception
Multibaggers	-12.9%	-19.94%	-11.94%	**72.26%** (Inception Date) 04-July-2020
NIFTY	-10.3%	-9.56%	-2.11%	**42.71%**

Investment Rationale

1. **Market leadership in products**
Aether is a market leader globally in 50% of its eight major products. According to Frost & Sullivan, in CY20, Aether was the sole manufacturer in India of 4MEP, MMBC, T2E, OTBN, NODG, DVL and Bifenthrin Alcohol. The company was the largest manufacturer of 4MEP & HEEP globally, the largest manufacturer of NODG & T2E globally and the only manufacturer of these products in India.

2. **Differentiated Portfolio of Market-leading Products**
The company's products have a wide range of applications in the pharmaceutical, agrochemicals, material science, coatings, high performance photography, additives, and oil and gas industries. Aether has been launching 3 to 5 products per year since FY17 and had 25 products on the market by the end of March 2022, which were marketed to 34 global customers in 18 countries and 154 domestic customers.

3. **Many more products in pipeline**
Furthermore, numerous R&D products are in the pipeline, and the company will launch five new products from the upcoming Greenfield Project (Site 3) which have conservative market potential of Rs. 1,200 crores (currently imported into India).

4. **Long-standing relationships with marquee customers**
As of March 31 2022, Aether's products were sold to 34 global customers (in 17 countries) and 154 domestic customers. The company enjoys long-standing relationships with most of its customers (in excess of five years, with seven out of its top-10 customers), who are big pharmaceutical, agrochemical, oil & gas, materials, and textile companies. The largest customer contributed 12%; top 10 customers contributed 56%; and top 20 customers contributed ~73% to the total revenue in FY22. The company enjoys relationships.

5. **Consistent Track Record of Financial Performance:**
The company's revenue from operations has increased at a CAGR of 43% from Rs 201 Cr in Fiscal 2019 to Rs 590 Cr in Fiscal 2022. The company's EBITDA increased from Rs 48 Cr Fiscal 2019 to Rs 168 Cr in Fiscal 2022 at a CAGR of 51.8% while PAT increased from Rs 23 Cr in Fiscal 2019 to Rs 109 Cr in Fiscal 2021.

aether
elementally innovative

Quarterly Performance:

- Revenue grew 9/7% QoQ/YoY to INR 160 cr. EBITDA remained flat sequentially and fell 8% YoY to INR 42.4 Cr in Q1, with EBITDA margin declining to 27% (-202/-435bps QoQ/ YoY), owing to high raw material prices courtesy change in forex rate and increasing energy costs. APAT came in at INR 30.6 Cr (+18/-5% QoQ/YoY).
- The 16MW solar power plant is now commissioned and has started generating power. This plant will take care of 50% of the company's electricity load for its three sites.
- The company is on track in launching 5 new import substitute molecules in FY23, which together have a market potential of INR 1200 cr.
- The company spent 6.9% of its revenue as R&D expenses. Currently, the company is working on 18 molecules in its R&D lab.
- It is in the process of acquiring a 2,500 sq. mtrs. land adjacent to its third site, which shall be used for further expansion. Also, the company has acquired a 1,500 sq. mtrs. land adjacent to its pilot plant and R&D facility for further expansion.

Financial Table

Rs in Cr	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E	EV/EBITDA
FY20	301.80	71.80	23.80%	40.00	4.20	51.00%	41.70	29.60
FY21	449.80	112.20	24.90%	71.10	6.40	40.80%	153.20	98.80
FY22E	590.00	168.10	28.50%	108.90	9.70	28.20%	101.50	67.30
FY23E	767.30	225.60	29.40%	156.00	13.80	13.30%	71.00	47.50
FY24E	1,055.00	318.60	30.20%	224.00	19.90	16.10%	49.40	33.90
FY25E	1,456.00	447.00	30.70%	325.10	28.80	18.90%	31.00	21.90

Risks to our call

- The company's business depends on the demand from the global pharmaceutical and FMCG industry for a significant portion of its revenue. Any downturn in the global pharmaceutical or FMCG industry could adversely affect business performance.
- The company deals in hazardous chemicals, and changes in safety, health and environmental laws or regulations may adversely affect its business and operations.
- The company earns 55-60% of its revenues from export and deals in various global currencies, which is very volatile in nature.

Outlook & Valuation

Aether is the sole manufacturer of critical chemicals, such as – 4MEP, MMBC, T2E, OTBN, NODG, DVL and Bifenthrin Alcohol, and the largest manufacturer in the world by volume for 4MEP, T2E, NODG and HEEP. In the past 4 years, Aether replaced the entire imports of these products from China and also started exporting them to 17 countries. Exports contributed 56% of FY21 revenue. The Company have delivered good growth in sales over past few years along with stable margin profile.

Considering the growth opportunities for speciality chemicals in pharma, agrochemicals & FMCG space, and improving prospects for contractual manufacturing & CRAMS under Make-in-India initiatives, we have a Buy rating on stock

At CMP of Rs 894, (based on our estimates), the stock is trading at 31x its FY25E EPS

Recommendation & Rating

We Maintain HOLD

Alembic Touching Lives over 100 years

Investment Rationale

1. **International generics segment to grow in double digits on back of new launches/approvals from USFDA & traction in existing products :** Alembic's revenue from the international generics segment has grown at 15% CAGR over FY2018-FY2022, largely backed by a strong 16% CAGR staged by US markets (75% of international generic segment revenues). Going ahead, Alembic sees the US sales to bottom out and stage an improvement, driven by growth in base business and strong new product launch pipeline including products approved but yet to be commercialized. Going ahead, the company plans to file 20-25 ANDA per year and expects to launch 15-20 new products every year. Company launched 5 products in Q1FY23, totalling to 110 products. Also, the recently launched products are expected to gain traction and aid topline growth.

2. **Benefits of Rs 1800 cr Capex done in last 4-5 years to start giving fruits**
   Company has done significant investment in the past 4-5 years across new plants to strengthen US pipeline and build manufacturing plants for oral solids, general and Oncology injectables, Dermatology and Opthalmic products. New plants are likely to start contributing to financials in near future

3. **US FDA Inspection Update:**
   In Nov-2021, USFDA conducted an inspection at company's Injectable Facility (F-3) located at Karkhadi from Oct 28, 2021 to Nov 10, 2021. US FDA issued a form 483 with 10 observations. None of the observations are related to data integrity. The management has submitted its responses to USFDA and is awaiting a response. As per management F3 facility should be commercialized by FY23. F3 facility is a general injectables and ophthalmic plant and upon the resolution of the observations, the company would be able to ramp up launch momentum in the US.

4. **Strong R&D capabilities, capex provides visibility of future growth:**
   In the last five years, Alembic has significantly strengthened its R&D capabilities, allowing it to expand its presence beyond oral solids. The company spends 12-14% of its revenue on R&D, the management expects to invest Rs 650-700 crore in FY23 towards R&D to develop a pipeline of complex products related to dermatology, ophthalmology, injectables, oncology injectables and oncology oral solids.

5 **Aleor Dermaceuticals:**
In order to enhance its focus in the Dermatology space, Alembic had entered into a JV (60:40) with Orbicular Pharmaceutical Technologies (Orbicular) in 2016 to develop, manufacture and commercialize dermatology products for the global markets. Aleor has now become wholly owned subsidiary. Alembic has cumulatively invested Rs 822 Cr towards Aleor. Alembic's Derma portfolio has 30 ANDA's filed till date. So far, 21 products have been approved (2 tentative approvals) and 15 have been launched in the US market. In addition, management anticipates launching 5-8 products over the next 12-15 months & another 5-8 products a year after that. Post these launches Aleor will start making meaningful contribution to Alembic's total topline &, bottomline.

Quarterly Performance:

Alembic Pharma's revenues declined 4.8% YoY in 1QFY23 to Rs1262 Cr. Gross margins at 70% contracted by 100bps/270 YoY/QoQ on higher input cost and significant price erosion in the US. Ex Aleor's R&D of Rs 100 Cr charged off to expenses, EBITDA stood at Rs114 Cr declined 51.4%/59.5% YoY/QoQ. Adj EBITDA margin at 9% contracted 870bps/1090bps YoY/QoQ on lower gross margins and higher operating cost and freight cost. APAT at Rs 36.1 Cr declined by 140%/80% YoY/QoQ.

Financials Table:

Rs in Cr	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E	EV/EBITDA
FY18	3,130.80	615.30	19.70%	412.60	21.90	18.60%	25.10	17.80
FY19	3,934.70	855.80	21.80%	584.40	31.00	21.50%	17.30	12.90
FY20	4,605.80	1,214.10	26.40%	828.80	44.00	26.00%	12.20	9.70
FY21	5,393.10	1,480.10	27.40%	1,178.10	59.90	23.30%	16.10	13.00
FY22	5,305.80	874.40	16.50%	513.80	26.10	9.80%	29.20	17.80
FY23E	5,468.00	798.3	14.60%	443.1	22.5	7.80%	33.8	19.2
FY24E	6,538.00	1,059.20	16.20%	628.60	32.00	10.00%	23.90	14.40
FY25E	7,535.00	1,394.00	19.00%	851.70	43.30	12.00%	13.70	8.30

Risks to our call

US regulatory risks : Company is exposed to regulatory changes in the Indian and global markets, as reflected in increasing scrutiny and inspections by authorities, including the USFDA, European Medicines Agency and TGA Australia. Commercialization of new facilities and clearing regulatory audits remain key to company's growth momentum.

Domestic business underperformance : Company had not done well in the domestic market till recently and has been losing market share in many of its key segments. Lower than expected growth in domestic formulations would hinder overall profitability.

Drug inclusion in NLEM: Addition of drugs in the National List of Essential Medicines (NLEM) could hurt revenues and margins of the domestic business

Delay in approvals of plant/products/ANDA/DMF could postpone revenue growth for Alembic.

Outlook & Valuation

Alembic Pharma has concluded a sizeable debt-funded capital expenditure (capex) program of Rs1800cr over FY18-21. Management has stated that post the conclusion of the program, it would be in a position to offer enhanced new dosages. The focus will be to ramp up filings across the ophthalmology, general injectables, oncology injectables and oral solids, with an emphasis on strengthening capacities and growing product portfolio.
Going forward, lower capex intensity is likely to reduce debt and improve Alembic's free cash flow generation and return ratios.
At CMP of Rs 595 (based on our estimates), the stock is trading at 13.7x its FY25E EPS, which is at a discount to most of the peers.

Recommendation & Rating

We Maintain HOLD

ASTEC

Investment Rationale

1. **Robust expansion plan with promising growth in coming years:**
Company plans to go heavy on capex as they have committed Rs. 350-400 cr total capex. Break up would be as follows, i) Rs. 100-150 cr towards new R&D centre, ii) Rs. 35-50 cr towards further expansion of herbicide plant, iii) Rs. 70-80 cr for safety & plant modernization along with digitization of company's facilities to bring it in line with global standards at Mahad facility, iv) Rs. 150 cr for green field multi-purpose plant.

2. **Margins remain sustainable on the back of backward integration:**
About 65% of raw materials was imported from China. The company has reduced this dependence by strong backward integration projects. The Company invested Rs 250 cr between FY17 and FY21. As a result company achieved highest ever EBITDA margins of 23% in FY22.

3. **CMO business & additional varieties of Triazol to drive further growth :**
The company has long term relationship with few US and Japanese customers who are driving demand in the contract manufacturing segment. The global as well as domestic demand for triazole fungicide product is robust, majorly due to launch of few combination fungicides with new chemistries and existing molecules. Company's focus is on building strong contract pipelines & introduce diversified products under its CMO business. In FY22 the CMO business contributed ~13% on an aggregate basis. Astec has launched two new products outside the Triazole Fungicide segment in CMO business.

Astec Lifesciences Ltd (Astec)

ASTEC

Quarterly Performance:

In Q1FY23 the topline of the company increased 43% YoY to Rs. 184 cr, aided by higher realizations in the export markets. The export sales grew 215% YoY and contributed ~49% to the topline, on the other hand, domestic sales declined 6.4% YoY as the management focused the capacities on the exports business. Due to higher input costs (+56% YoY) along with higher employee and other expenses, the EBITDA margin was impacted ~540bps YoY and stood at 13.8% in Q1FY23. Further, higher finance cost as well as the deferment of sales impacted the bottom line.

Financials Table:

Rs in Cr	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E
FY18	367.60	68.80	18.70%	34.90	17.80	20.50%	32.50
FY19	430.90	76.50	17.70%	35.70	18.20	17.60%	29.40
FY20	522.60	85.20	16.30%	47.50	24.20	19.20%	16.00
FY21	554.90	111.50	20.10%	65.00	33.20	21.00%	30.20
FY22	676.60	153.80	22.70%	89.90	45.80	22.70%	38.30
FY23E	840.00	195.80	23.30%	112.10	57.20	22.20%	29.00
FY24E	1,020.00	242.40	23.80%	137.40	70.10	21.50%	23.70

ASTEC

Risks to our call

Raw material Price fluctuations: Raw material price fluctuations can impact EBITDA margins

Client concentration: The company's clientele in the CRAMS portfolio has remained concentrated and dependent on a few select clients.

Outlook & Valuation

We expect the company's dominant position in the Triazole fungicide manufacturing business, launch of more products in CMO segment, backward integration for its key raw material and investments in the new R&D centre to provide stable growth going forward. The company is developing new products supported by deep technical capabilities and is likely to benefit from the opportunities that the global demand shift from China may present for the Indian entities.

At the current market price of Rs. 1845, the stock trades at 26.3x of FY24E earnings (based on our estimates).

Recommendation & Rating

We Maintain HOLD

Investment Rationale

1. **Established market position:**
BCML is a large integrated sugar producer in India. It has the capacity to crush 77,500 tons per day (TPD) of sugarcane, exportable (surplus) power capacity of 175.7 MW and distillery of 560 KLPD. The company is the second largest player in terms of scale on a pan-India basis. It has ten sugar factories - eight in eastern UP and two in central UP, thus having access to a larger market in North India. The distillery capacity is being expanded to 1,050 KLPD through fresh addition of 320 KLPD and expansion of 170 KLPD, which got commissioned in November 2022. Following the expansion, performance of distillery segment should improve and aid profitability of the company.

2. **Integrated Business model:**
Fully integrated operations will enable all supplementary businesses associated with sugar, such as distillery and power, to become major contributors to profitability, and largely de-risk the sugar business. The distillery business offers much higher and stable profit and returns, compared with the sugar business, and thus, help moderate impact of cyclicality in the sugar business.

3. **New Distillery to Aid Earnings:**
The company is well-positioned to capitalize on the government's call to increase ethanol blending in petrol to 20% by FY25. The greenfield/brownfield expansion programmes for distillery at Maizapur and Balrampur are on track and production is expected to commence at the expanded capacity from December 2022. Post expansion, the company's distillation capacity would be ~35 crore litres which would aid distillery volumes and overall earnings of the company.

Quarterly Performance:

BCML Q1FY23 results were below par as lower sugar yields due to lower cane production coupled with increase in SAP cost and higher fixed costs dragged the profitability of the company by 84% to Rs.12.4 cr on a YoY basis. Consolidated Revenues witnessed a degrowth of 5.3% y-o-y to Rs. 1,080 cr due to lower quota by the government for sale of sugar which was partly offset by higher volumes and realizations in distillery segment which grew by 11.5% y-o-y to Rs. 298 cr. Higher fixed cost, Lower recovery in sugar, higher cost of production and higher transfer pricing resulted in sharp decline in EBITDA by 67% y-o-y to Rs. 44.4 cr and EBITDA Margins to 4%.

Balrampur Chini Mills Ltd (BCML)

Financials Table:

Rs in Cr	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E	EV/EBITDA
2020	4,741.30	682.00	14.40%	519.40	23.60	21.50%	4.40	5.50
2021	4,811.70	712.80	14.80%	479.80	22.80	18.30%	9.40	8.10
2022	4,836.30	698.50	14.40%	464.50	22.80	16.80%	15.10	11.70
2023E	5,389.00	839.60	15.60%	536.30	26.30	16.50%	13.00	9.90
2024E	6,429.40	1,056.40	16.40%	689.70	33.80	17.80%	10.10	7.70

Risks to our call

Susceptibility to downturn in the sugar business: Sugar prices are largely market driven and dependent on production for the sugar season and inventory levels prevailing in the country. Sugar sale price keeps fluctuating while the cost of production is relatively sticky.

Profitability of sugar mills vulnerable to industry cyclicality and agro-climatic risks: Being an agri-commodity, the sugar cane crop is dependent upon climatic conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate.

Profitability of UP-based sugar mills continues to depend on Government of UP policy on cane prices: BCML & other UP-based sugar mills profitability continues to depend heavily on the Government of UP policy on cane prices. Any disproportionate increase in cane prices may significantly impact profitability of companies

Outlook & Valuation

BCML is the second largest sugar company in India. The company has undertaken modernization & de-bottlenecking at some plants leading to higher sugarcane crushing & better recoveries by FY24. BCML would be replacing Co-0238 with newer sugarcane variety in its catchment areas, which would enhance sugarcane availability thereby sugar production. Enhanced ethanol volumes will also aid growth for BCML.
At CMP of Rs 365 the stock trades at ~10x of FY24E earnings

Recommendation & Rating

We Maintain HOLD

BRIGADE

Investment Rationale

1. **Sustained Momentum in Real Estate Segment:**
The pre-sales for Q1FY23 was 1.235 msft, which is higher by +61% and -20% YoY and QoQ, respectively. Value wise, real estate segment grew 70% YoY, but decreased 21% QoQ, backed by new launches and prices increase. The average realization was higher by 5% YoY, but decreased QoQ by 0.83%. The company launched 0.42 msft. In Q1FY23. It intends to launch 8.37 msft. In FY23E. Additionally, the company increased prices this quarter by a calibrated 5-7%, a sign of strong demand strength.
According to management, bookings continue to be strong, with an increase in demand for completed and larger-sized inventory, better affordability, and project pricing/location. The management hopes to increase sales volume by 20-25% YoY vs FY22. Furthermore, with a better project mix and price increases, average realisation is likely to improve in real estate segment.

2. **Demand Resurgence in Leasing Segment:**
Brigade leased 0.4 msft during Q1FY23 compared to 0.5 msft in Q4FY22, taking occupancy to a two-year high. Furthermore, the company achieved 99% collections during Q1FY23. The company is seeing an increase in leasing inquiries and physical site inspections for larger and mid-sized spaces. The company currently has a 1 msft. active pipeline. The company's mall portfolio has seen good leasing traction, with 112,000 sqft. leased during Q1FY23. The increased traction in the retail sector is expected to continue.

3. **Strong Revival in Hospitality Segment:**
The segment has witnessed a strong come back after the business segment got hit in Q4FY22 due to the omicron wave of Covid-19. The occupancy for the quarter touched 71% compared to 49% in Q4FY22 aided by corporate travel, banquet events, leisure travel, among others; in Q1FY20, which is pre-covid period, the occupancy was 59%. ARR of Rs. 5,363 was also higher than Q4FY22 and almost touched pre-covid levels of Rs. 5.435. Overall, segment revenue increased by 33% compared to Q1FY20.

4. **Decent Developable Land Area :**
As of June 2022, Brigade has 492 acres of land (added 75 acres in Bengaluru in Q1FY23) with a project area of 47 million sqft across Bengaluru (367 acres), Chennai (79 acres), and Others, which includes Kochi, Hyderabad, Mysore, Gujarat, and Thiruvananthapuram (46 acres). 74% of the land is under the residential followed by commercial (15%), plotted (4%), Logistics & Warehousing (3%), Commercial – Sale (3%), and Hotel (1%). Most of the properties in land banks are developable after receiving sanctions and approvals. The company has paid Rs. 762 cr for land, with a balance payable of Rs. 1,089 cr (the majority of which is due in FY23). The total requirement would be funded through a combination of internal accruals, QIP funds, and debt.

Quarterly Performance:

Brigade Enterprises reported strong results for the quarter ended June 2022, with growth in all its segments. Revenue for the quarter was Rs. 902.5 cr, up 2.4x YoY and down 4.2% QoQ. Real estate segment was higher by 2.5x YoY and down 9.6% QoQ; Leasing was +55.1% YoY and -4.9% QoQ; and Hospitality with stellar performance posted a growth of 4.6x YoY and 74.3% QoQ. EBITDA was Rs. 232.7 cr, up 2.1x YoY and 13.4% QoQ; EBITDA margin stood at 25.8%, a reduction of 329bps YoY and growth of 400bps QoQ. Profit after tax, adjusted for exceptional items stood at Rs. 73.4 cr vs. losses of Rs. 76.7 cr in Q1FY22; PAT was higher by 2.7x compared to Q4FY22.

Financials Table:

Rs. in Crores	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E	EV/EBITDA
2020	2,632.20	663.20	25.20%	130.60	6.30	5.30%	6.30	10.40
2021	1,950.00	471.90	24.20%	-46.30	-2.20	-1.90%	-2.20	21.60
2022	2,998.80	766.30	25.60%	82.80	3.60	2.90%	3.60	20.10
2023E	3,590.80	986.00	27.50%	246.70	10.70	8.10%	10.70	17.30
2024E	4,521.30	1,293.40	28.60%	463.40	20.00	13.60%	20.00	12.80

BRIGADE

Risks to our call

Exposure to Risks inherent in the Real Estate Sector

Susceptibility to intense competition and cyclicality in the hospitality sector

Outlook & Valuation

We believe, the demand for real estate, especially in residential side, is strong and may witness increased demand in medium term backed by higher purchasing power. However, the impact of the rate hike by the RBI, needs to be monitored. Brigade, being one of the market leaders, especially in Bengaluru, could witness demand for its upcoming launches backed by its established brand and healthy market share. On the leasing side, the demand outlook is improving. The hospitality segment had a strong come back and the momentum could continue backed by demand from corporate and leisure travel.

At CMP of Rs 500, (based on our estimates) the stock trades at ~12x of FY24E EV/EBITDA.

Recommendation & Rating

We Maintain HOLD

Investment Rationale

1. **Acquisitions to Drive Capabilities and Growth:**
The company's acquisitions in the last few years have helped eClerx acquire digital capabilities and aided in vertical diversification. eClerx catered mainly to telecom and BFSI segments earlier. The CLX acquisition added hi-tech, retail and luxury segments to eClerx's addressable market.

2. **Personiv clients:**
The company acquired personiv in December 2020, an outsourcing service provider with over 35 plus years of experience with offices in U.S., India, and Philippines. The acquisition will help eClerx leverage synergies in digital and customer experience services. Traction in customer care, Robotics Process Automation (RPA), analytics & content development, cross sell and up sell to Personiv clients is likely to drive growth.

3. **Deal Wins:**
Lower roll-offs from one off client specific event, improving deal wins and revival in growth are expected to drive revenues.

Quarterly Performance:

eClerx reported muted Q1FY23 earnings with consolidated revenues coming in at Rs 618 cr as against Rs 592 cr (4.2% growth sequentially). EBITDA witnessed degrowth of 22% to Rs.143 cr along with a 600-bps margin compression to 23% on a sequential basis. EBITDA was impacted due to wage hikes, resumption of travel & facility costs. However, management is confident of maintaining margins at the lower band of 28-32% for FY23E. Q1FY23 PAT recorded high single digit growth of 8% at Rs 99 cr on a sequential basis due to higher other income.

Corporate action developments:

As per past track record, eClerx has consistently rewarded shareholders with good dividend payouts, buyback and recently announced bonus issue on August 10, 2022 in the ratio of 1:2. Further, company turned Ex-bonus on (21/09/2022) and and record date for the same was (22/09/2022) and as a result, the price has been adjusted accordingly. Adjusted initiating price is Rs 1920 (2880*2/3).

Financials Table:

Rs in Cr	Net Sales	EBITDA	EBITDAM	PAT	EPS	P/E
2020	1,437.60	324.90	22.60%	209.00	57.90	35.80%
2021	1,565.50	449.20	28.70%	282.60	55.00	13.30%
2022	2,160.30	660.60	30.60%	417.40	84.00	18.80%
2023E	2,484.00	722.80	29.10%	479.50	96.00	15.30%
2024E	2,856.60	837.00	29.30%	566.50	113.30	13.00%

Risks to our call

Geographic Concentration: +65% revenue comes from the USA. Impending recession In US may have adverse impact on company's revenue trajectory since the geography contributes majority of revenue mix

Currency Volatility: A significant portion of eClerx's revenue is realized in foreign currencies, and any unfavourable movement in the foreign currency rates could have an adverse impact on revenue.

eClerx Services Ltd (eClerx)

Outlook & Valuation

eClerx Services provides business process management, automation and analytics services. It caters to financial services, communications, and retail, media, and manufacturing, travel and technology companies. Though company posted lackluster Q1FY23 earnings, company is confident of steady revenue growth in FY23 as it is witnessing traction in customer care, RPA, analytics & content development, cross sell and up sell to Personiv clients, Lower roll-offs, improving deal wins and revival in growth.

At CMP of Rs 1,470 the stock is trading at 13x of FY24E (based on our estimates).

Recommendation & Rating

We Maintain HOLD

Investment Rationale

1. **Significant rejig in business model with clear focus on industrial gears; moving away from MHE: Altered revenue mix to 90% industrial gears/power transmission 10% MHE**
Elecon struggled as demand slowed and liquidity issues arose. Simultaneously, it acquired Radicon and Benzlers' overseas businesses in 2011, putting additional strain on the group's resources. Elecon's attempt to reduce MHE's contribution and expand industrial gears was disrupted by a temporary slowdown in demand. Over the last few years the company has closed the majority of its legacy projects, recovered the retention money, and paid the debt at the subsidiary level. The company's revenue mix has significantly altered as a result of the change in strategy and prevalent business conditions. We believe Elecon will benefit from the high demand and has significant room to improve capacity utilisation (60-65% in the gear segment).

2. **Leading player in transmission products segment:**
Elecon is a market leader in the transmission products segment, specifically gears, with a 38% market share in India.

3. **Strong geographic presence across globe:**
Over the years, the company has widened its product offerings and geographic presence in transmission products through in-house development and acquisitions globally. The company expects to increase the share of revenue from exports to 50% in the long term (current exports account for 35%). US, South America and Europe are focus markets for exports.

4. **Strong order book provides revenue visibility:**
Elecon has received a healthy order inflow of more than Rs. 800 cr in FY22 in the transmission segment with a standalone order book position of Rs. 410 cr and a consolidated order book of Rs. 605 cr as on March 31, 2022. Moreover, an order inflow guidance of Rs. 1,000 cr for FY23 provides revenue visibility over the near term.

Elecon Engineering Company Ltd (Elecon)

ELECON
GEARING THE FUTURE

Quarterly Performance:

- Elecon has posted a decent set of numbers in Q1FY23 as order book remains healthy at INR617cr. PAT of INR43cr (+60% YoY). PAT growth appears strong due to the high interest component in the base quarter. Elecon has turned net debt-free before its target of FY23, and lower interest cost is supporting the bottom line. EBITDA came in at INR65cr (+11% YoY), EBITDA margin stood at 19.8%, as the MHE division bounced back sharply.
- On a consolidated basis, the Gear segment's order book stands at INR515cr, excluding the recent INR140cr order from the Indian Navy. The new Navy order will be executed over two years and will have similar healthy margins as the one completed last quarter. Gear segment grew 12% YoY at standalone level, while subsidiary growth remained muted at -4% YoY. MHE segment bounced back strongly with 44% YoY growth in revenue, as it recorded 11% EBIT margin.
- The management has kept the guidance unchanged. It expects Elecon to record INR 1500 cr sales at consolidated level in FY23E and reach the same INR 1500 cr at standalone level by FY24E

Financial Table

Rs in Cr	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E	EV/EBITDA
FY20	1,088.50	112.40	10.30%	89.70	8.00	36.90%	2.40	4.70
FY21	1,088.50	112.20	10.70%	57.60	5.10	6.30%	12.40	7.60
FY22	1,203.60	239.80	19.90%	140.50	12.50	13.40%	11.50	6.70
FY23E	1,400.00	279.30	20.00%	167.50	14.90	13.80%	21.10	11.90
FY24E	1,700.00	344.30	20.30%	217.60	19.40	15.20%	16.20	9.10
FY25E	2,050.00	419.20	20.50%	276.30	24.60	16.10%	13.30	7.10

Risks to our call

- The MHE division, which is dependent mainly on the thermal power sector to provide turnkey project services, has been making losses for the last five years ended FY22. Delays in project execution, lengthy working capital cycles, and headwinds in the thermal power sector have led the company to register losses continuously.
- Company's revenues are exposed to the cyclicality in the domestic capex cycle and any economic slowdown could impact its revenues as witnessed in the past.
- The company's margins are susceptible to the fluctuations in raw material prices due to a lag of two to three months in manufacturing lead time, especially for engineered products.

Outlook & Valuation

Elecon offers strong growth visibility with improving balance sheet. The impending improvement in the economic scenario and the resultant capex is expected to drive up demand for the MHE business. Considering The healthy order inflow of more than Rs. 800 cr in FY22 provides strong revenue visibility in the coming years.

At CMP of Rs 328 (based on our estimates), the stock is trading at 13.3x its FY25E EPS.

Recommendation & Rating

We Maintain HOLD

Investment Rationale

1. **Healthy Pipeline of Generic APIs**
The company has a healthy pipeline of proprietary and contract manufacturing products in development, which could support future growth and profitability, particularly in the export market. In a recent conference call, the company's management stated that the company has 10+ products in development and plans to launch four to five products in FY23. In the pharmaceuticals, the company is seeing a healthy influx of inquiries from key markets for recently launched and new pipeline products. The new crop protection product pipeline is gaining traction with a diverse set of global customers.

2. **Established track record and dominant position in few products**
The company has a strong product profile and established relationships with the world's largest pharmaceutical and agrochemical companies. It has regulatory approvals from the US FDA-cGMP, TGA-GMP, KFDA (Korea), PMDA (Japan), AFMPS (Belgium), EDQM, EPA, COFEPRIS (Mexico). The company is the world's top supplier of anti-convulsant category drug called Gabapentin with a market share of 35-40%. The company is also the world’s largest supplier of Thiabendazole (prevent and control plant fungal diseases, used to treat fruits and vegetables, prevent, and control some diseases in storage).

3. **Diversified Revenue mix**
The client base of the pharmaceutical segment is broad, with the top three customers accounting for 30% of revenues in FY21 and less than 35% in FY22. It is the market leader in Gabapentin, which it sells to innovators & several significant generic companies. Overall pharma business account for 58% & Crop protection accounted for 42% of total consolidated revenue in FY22.

In FY21 and FY22, its top three crop protection customers accounted for 50%-55% of revenues. In Q1 FY22 company has entered into a 10 year supply contract for a portfolio of niche APIs with a large global multinational customer, which will help the company in growing its animal health business.

HIKAL

Shutdown of Taloja plant impacted topline: Distorted perception on governance created buying opportunity in stock
The company was ordered to shut down its plant in Taloja (catering to crop protection) by Maharashtra Pollution control board. This plant contributes about 15% to company's total top line. Production disturbance had negative impact on financials in Q1FY23. The court has now allowed the company to restart operations at Taloja. Management expects to make up for production loss in closure period over next 9 months also they used this period for plant maintenance so as to avoid further time loss. The market reacted over anxiously & treated this incident as governance lapse leading to sharp decline in stock price. We believe regulatory overhang is a possibility for nay any company but & there is no governance issue here. The day uncertainty over plant closure time period was lifted (high court order) we recommended to buy on stock as we believe distorted perception resulted in opportunity for investors.

Quarterly Performance:

In Q1FY23 the revenue for the quarter was ~Rs. 379 cr, a de-growth of -17.1% YoY and -24.6% QoQ. The crop protection business was impacted due to the closure of Taloja plant The pharmaceuticals segment also witnessed a de-growth of ~18% YoY and ~27% QoQ on the back of temporary demand softening of key products and channel inventory correction by customers. EBITDA for the quarter was Rs. 23 cr, a decline of 76.2% YoY and 62.7% QoQ and margin also witnessed a contraction by 1,496bps YoY and 613 bps QoQ primarily due to lower sales and product mix, increase in cost of raw materials, energy, and solvents. During the Q1FY23, Hikal posted loss of Rs. 8.9 cr v/s profit of Rs. 50.5 cr and Rs. 20.7 cr in Q1FY22 and Q4FY22, respectively.

Financial Table

Rs in Crores	Net Sales	EBITDA	EBITDAM	PAT	EPS	PE	ROE	EV/EBITDA
FY19	1,589.61	298.13	18.75%	103.08	8.36	20.80	13.63%	9.29
FY20	1,507.26	273.16	18.12%	84.43	6.85	10.20	10.34%	5.27
FY21	1,720.44	322.89	18.77%	133.14	10.80	13.30	14.26%	7.25
FY22	1,942.72	340.56	17.53%	160.51	13.02	30.90	15.03%	16.51
FY23E	1,954.00	317.44	16.25%	127.30	10.32	31.80	10.76%	15.00
FY24E	2,281.50	436.81	19.15%	203.40	16.50	19.90	15.98%	10.65
FY25E	2,691.10	563.70	20.90%	290.30	23.50	14.00	16.00%	8.10

Risks to our call

Demand reduction Downward shift in demand from its expected levels will lead to lower profitability for the company.

Outlook & Valuation

We believe the company will continue to benefit from its established track record, healthy pipeline of generic APIs, introduction of new products, along with favourable growth prospects for the existing products. It has a healthy pipeline of products under development for proprietary and contract manufacturing, which is expected to support its growth prospects, especially in the export market. The company is in the process of implementing capex of ~Rs. 600 cr upto FY25 out of which Rs. 273 cr has already been spent in FY22. By FY24/FY25, the business could reach peak utilization which is expected to aid revenue growth.

At CMP of ~Rs 329 (based on our estimates), the stock trades at ~14x of FY25E earnings.

Recommendation & Rating

We Maintain HOLD

Intellect Design Arena Ltd (Intellect)

intellect®
Design for Digital

Investment Rationale

1. **Established player in Software product Development within BFSI domain**
   Intellect Designs Arena is an Indian software company known for development of Banking and Financial domain software products. The software products are developed for diverse segments across BFSI domain such as Corporate banks, NBFCs, Central banks, insurance companies and asset management companies. It majorly generates its revenues through developed markets such as America, Europe, Middle East and Asian markets. Highest revenue concentration of 34% was from USA market of the company as per Q1FY23. Intellect Global Transaction Banking (iGTB), the transaction banking specialist is ranked #1 in the world for Transaction Banking by IBS Intelligence.

2. **Deal wins to draw Strong growth trajectory**
   Currently the company has 10 products and 6 platforms. With AI and data base technology the company created strong demand for its platforms~ iGCB , iSEEC, and Gem in many countries with US being the major market of the company. In Q1FY23 company has locked total 10 deals of high value and 11 new digital transformation deals . These deals range from Rs 20 Cr to Rs 50 Cr. It has strong hold in Middle East as well, where 7 out of 9 banks are customers of the company. Recently, the company has signed 5 new deals with Saudi banks with an intention of growing its footprints in Saudi market. It has also signed deal with one of the oldest Tanzania based bank for iGCB's Intellect Digital Lending

3. **Promising future for the Company**
   Intellect has grown its revenue from $99mn in FY15 to $252mn in FY22. Going forward company is increasing its footprints in European markets majorly Germany which will drive further growth.

intellect®
Design for Digital

Quarterly Performance:

In Q1FY23 company witnessed a strong growth in its revenues by 33% from Rs 408 Cr in Q1FY22 to Rs 541 Cr in Q1FY23 . Gross margins increased by 31% on Y-O-Y basis. EBITDA margins grew by 17% from Rs 100 Cr in Q1FY22 to Rs 117 Cr in Q1FY23. Platform revenues, AMC witnessed a growth of 47% and 10% respectively, whereas License revenue registered a decline of 3%.

Financial Table

Rs in Cr	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E	EV/EBITDA
FY18	1,087.30	75.10	6.90%	51.70	3.60	5.80%	44.40	28.60
FY19	1,449.60	132.10	9.10%	128.30	9.70	12.80%	20.40	21.10
FY20	1,346.90	75.50	5.60%	11.40	1.20	1.50%	45.00	11.70
FY21	1,497.50	358.60	23.90%	256.20	18.90	18.70%	37.40	28.20
FY22	1,878.20	472.30	25.10%	348.10	25.00	18.50%	21.40	15.50
FY23E	2,228.00	524.1	23.50%	373.3	26.8	16.80%	19.9	14.5
FY24E	2,563.00	618.00	24.10%	441.20	31.70	18.20%	16.90	10.40
FY25E	2,963.00	723.90	24.40%	512.50	36.80	18.00%	14.50	9.00

Risks to our call

Technological Advancements Company operates in highly competitive landscape.

Foreign markets Company has high dependence on USA for revenue. Any adversities arising in this market may severely impact the business of the company.

Outlook & Valuation

We believe the company is well placed to capitalize on incremental growth opportunities given its upgraded and matured product suites in BFSI domain, strong order book execution capabilities, improved annuity revenues and improved deal wins in iGCB, iGTB and iSEEC. Further we expect the company to deliver robust growth supported by domain specialization and long standing client relationship.

At CMP of Rs 534.35 the stock is trading at PE of 14.5x FY25E EPS.

Recommendation & Rating

We Maintain HOLD

Latent View Analytics Ltd (Latent View)

Investment Rationale

1. **Exceptionally skilled position in data and analytics with a wide range of capabilities**
Company is among the leading pure-play data analytics companies in India and has emerged as one of the most trusted partners to several Fortune 500 companies in recent years. The company provides descriptive and prescriptive analytics under customer analytics, marketing analytics, supply chain solutions, finance and risk analytics and people/ HR analytics.

2. **Deep and established relationships with fortune 500 clients:**
Latent View partners with many of the world's largest enterprises, and has worked with over 30 Fortune 500 companies in the last three fiscals. It includes several marquee clients (including Adobe, 7-Eleven, Uber Technology, etc) The company provides services primarily to companies in Technology, CPG and Retail, Industrials, and the BFSI industries. Currently, the key areas of engagement include search engine analysis, competitor analysis, survey analytics, web and campaign analytics, forecasting, marketing and media mix modelling, purchase brand funnel analysis and social media.

3. **Sector-wise contribution in revenues**
Technology sector stands highest with 69% followed by industrial 12%, CPG & Retail 10% and BFSI 9% to the overall revenues of the company. The technological advancements such as SaaS software handling, forecasting demand and supply chain, analysing fraud risk across BFSI industry are the key analytical roles performed by the company for its clients.

Quarterly Performance:

In Q1FY23 the revenue of the company stood at Rs 119 Cr with an EBITDA margin (adj.) of 29% and PAT margin of 24%. Majority of revenue was generated from long term agreements. Share of US markets in revenue was 95% followed by Europe 2.4% and ROW 2.6% in the quarter ended June FY23 IT segment contributed 69%.

Latent View Analytics Ltd (Latent View)

Financial Table

Rs in Cr	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E	EV/EBITDA
FY19	288.90	67.30	23.30%	62.90	3.20	23.50%	62.00	55.00
FY20	310.40	80.40	25.90%	72.80	3.70	20.90%	53.50	45.70
FY21	305.90	104.60	34.20%	91.50	4.60	20.90%	42.60	34.90
FY22	407.80	121.90	29.90%	129.50	6.50	12.60%	55.90	53.20
FY23E	477.90	143.70	30.10%	124.70	6.30	10.90%	57.30	44.10
FY24E	597.40	184.20	30.80%	159.40	8.00	13.10%	44.90	33.50

Risks to our call

Client concentration In Q1FY23, 86% of the revenues are generated from Top 20 clients of the company and 59% revenues are generated by Top 5 clients. Any disturbance in the relationship with these clients will impact the revenues of the company significantly.

Choice of employees Company provides data analytics services using advance models which requires highly skilled employees to analyse complex data sets and provide most efficient and accurate solutions to clients. Hiring & retaining skilled employees is a challenge.

Outlook & Valuation

Latent View is the only publicly traded pure-play data analytics company, which has been a trusted partner to multiple Fortune-500 companies in recent years. In our opinion, medium-to-long term industry tailwinds could support Latent's growth, as investment in data and analytics is expected to grow at a CAGR of nearly 20% in the BFSI, CPG, and Retail industries over the next 5 years to exceed USD 110 billion and spend on supply chain analytics is expected to grow at a CAGR of 19.8% from 2019 to 2024. Data analytics will play a key part in growth of any organization and Latent View is in a sweet spot to capture this growth opportunity. Also, it is the only listed player in India to focus purely on data analytics.

At CMP Rs 361 (based on our estimates) Latent view is trading at ~45x FY24E earnings.

Recommendation & Rating

We Maintain HOLD

lemon tree HOTELS

Investment Rationale

1. **Increasing occupancy and room rates to improve performance**
March 2022 showed recovery with occupancy touching ~60%. Further, in Q1FY23, occupancy was 65.1% vs. 46.1% in Q4FY22 (29.6% in Q1FY22). ARR was higher by 18% QoQ to Rs. 4,822 vs. Rs. 4,093 (Rs. 2,362 in Q1FY22). RevPAR also witnessed a growth of 66% QoQ to Rs. 3,138 vs. Rs. 1,888 in Q4FY22 (Rs. 700 in Q1FY22).

2. **Management guidance of 2x Revenue with 50% EBITDA margin in FY23E**
The management expects to grow the toplineto least 2x in FY23 with at least 50% EBITDA margin. We believe, growth in corporate and leisure travel would further support the company in medium-to-long term

3. **Expansion plan - Large pipeline of Hotels to become operational by FY25E**
Lemon Tree Mountain Resort, with 69 rooms and Aurika, Mumbai International Airport with 669 rooms is under construction. The total capex for the same is expected to be Rs. 1,000 cr and as of June 2022, the capex of 440 cr has been spent. Aurika MAIL is expected to be open complete and could open for operations from the end of CY23 with the expected ARR of Rs. 12,000. When the current pipeline become operational by FY25, the company will operate 10,700 rooms in 109 hotels across 65 destinations.

4. **Strong Demand Scenario**
From 2009 to 2019, demand for branded hotels increased at a pace of 11- 12% while supply increased at a rate of 15%. Following covid, the supply rate is predicted to fall to 3-4%, with 10-15% of supply permanently wiped off due to covid, while demand is expected to remain stable at 10-12%. As a result, there will be a demand-supply imbalance, driving higher ARRs.

Lemon Tree Hotels Ltd (Lemon Tree)

lemon tree HOTELS

Quarterly Performance:

During the quarter ended June 2022, the company saw recovery in the business led by continued traction in corporate and leisure travel. The total revenue increased 4.6x YoY and 60.6% QoQ to Rs. 192 cr. The occupancy for the quarter was 65.1% vs. 46.1% in Q4FY22 (29.6% in Q1FY22). ARR was higher by 18% QoQ to Rs. 4,822 vs. Rs. 4,093 (Rs. 2,362 in Q1FY22). RevPAR also witnessed a growth of 66% QoQ to Rs. 3,138 vs. Rs. 1,888 in Q4FY22 (Rs. 700 in Q1FY22).

Operating revenue for the company was Rs. 87.6 cr vs. Rs. 21.6 cr in Q4FY22, up ~4x QoQ. Operating margin was 45.6% vs. ~18% in Q4FY22, supported by permanent cost rationalisation, lower stamp duty expenses related to amalgamation of Meringue Hotels, Begonia Hotels, and Nightingale Hotels with Fleur Hotels and lower other expenses. Further, despite lower other income and higher taxes, the company's PAT stood at Rs. 13.6 cr vs. ~Rs. 39 cr losses in Q4FY22.

Financial Table

Rs. in Crores	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E	EV/EBITDA
FY20	669.40	243.40	36.40%	-13.10	-0.20	-0.90%	-383.80	26.90
FY21	251.70	61.30	24.30%	-186.50	-2.30	-12.10%	-26.90	107.60
FY22	402.20	118.70	29.50%	-137.36	-1.70	-9.40%	-36.30	56.20
FY23E	736.70	341.70	46.40%	63.35	0.80	4.40%	107.60	24.90
FY24E	966.50	457.90	47.40%	148.43	1.90	9.70%	45.90	18.60

Risks and Concerns

Highly Competitive Industry: Hospitality being an unorganized and highly fragmented industry has intense competition from regional players.

Subdued RoCE: Since 2009, RoCE has been below 6%. As a substantial portion of capital is employed in under-construction or newly constructed projects, RoCE is expected to remain subdued over the medium term.

Slowdown in Economy: A slowdown of India's economic growth could hurt the hospitality business affecting both operational and financial performance.

Outlook & Valuation

We believe, growth in corporate and leisure travel would support the growth of the company in medium-to-long term. The growth would be supported by higher ARRs and higher occupancy rate. The cost rationalisation would further aid the operating margins along with higher operating leverage. Further, the management believes the good demand visibility for the industry in next 3-5 years. The favourable demand-supply scenario would aid the higher ARRs and would help the overall industry and the Lemon Tree Hotels business.

At CMP of Rs 85 (based on our estimates), the stock trades at 18.6x of FY24E EV/EBITDA.

Recommendation & Rating

We Maintain HOLD

Muthoot Finance Ltd (Muthoot)

Muthoot Finance

Investment Rationale

1. **Leadership Position in Gold Finance/Loan Segment**
Muthoot Finance is a leading gold financier in India with standalone AUM of Rs.56689 cr as on June 2022. Muthoot has maintained its dominant position in the gold finance industry. It has a large footprint across India with 4617 gold lending branches. D espite low volume growth and greater competition from banks as a result of the LTV relaxation advantage granted to them, the company's gold loan AUM climbed by 10.3% YoY in FY22.

2. **Large Market Opportunity and Strong Momentum in Gold Loan:**
According to some reports, the organized gold loan industry is likely to increase 10% to 15% in the next 4-5 years, owing to innate need for small business loans and market share gains from the unorganized category. Loan growth volatility in gold loans is lesser than the other retail lending divisions like auto finance or microfinance.

3. **Teaser Loan Discontinued; Higher Interest Rates on Fresh Disbursements:**
New teaser rate loans were stopped after Mar'22 and all existing teaser rate loans were migrated to higher rates by 30 Jun'22. This will result in an improvement in yields for Muthoot from 2QFY23 onwards. The new and higher interest rates are only on fresh disbursements, with rates on the back-book unchanged.

Quarterly Performance:

The company posted muted set of numbers in Q1FY23. Interest Income declined 6% YoY to Rs. 2730 cr. Net Interest Income declined 10.5% QoQ to Rs. 1540 cr. NIM further declined sharply by 147bps to 10.74% vs. 12.21% in Q4FY22 (12.93% in Q1FY22). Pre-Provisioning Operating Profit (PPOP) declined 16.2% QoQ. Further, due to provision write-backs of ~Rs. 58 cr in Q1FY22 (Provision write-backs was ~Rs. 70 cr in Q4FY22), PAT stood at ~Rs. 820 cr, a decline of 16.5% QoQ. It is to be noted that the past trend of quarterly income suggests that usually the income in Q1 is lower than Q2.

Muthoot Finance Ltd (Muthoot)

Muthoot Finance

Gold loan AUM declined by 2.26% QoQ and up by 7.9% YoY to ~Rs. 56176 cr. Number of loan accounts and number of active customers declined ~3% QoQ each. The interest spread seen a fall of ~170 bps QoQ to 9.37% vs. 12.6% in Q3FY22. Stage III gold loans was 2.99% in Q4FY22, a decline of 83 bps QoQ, however, it still seems elevated. Avg. monthly disbursement, which is seen higher growth from Q1FY22, stood at Rs. 11200 cr.

Financial Table

Rs in Cr	NII	PPOP	PAT	EPS	P/ABV	NIIM (%)	ROA (%)	GNPA (%)
FY20	5,773.46	4,153.14	3,018.30	75.31	4.02	14.90%	6.00%	2.10%
FY21	6,636.09	5,101.49	3,722.18	92.79	3.05	13.70%	5.90%	0.90%
FY22	7,120.27	5,436.40	3,954.30	98.55	2.53	12.50%	5.60%	2.40%
FY23E	7,063.20	5,119.64	3,718.98	92.66	1.72	11.85%	5.09%	1.90%
FY24E	7,733.45	5,553.52	4,032.90	100.48	1.45	11.80%	4.93%	1.80%

Risks to our call

Gold Prices: A sudden and sustained decline in gold prices and adverse changes in regulations related to lending rates for gold loan NBFCs could impact the business.

Concentration: South India accounts for more than half of Muthoot's gold loan portfolio as well as in terms of its presence through branches this could lead to geographic concentration.

Competition: Increasing competition from other banks, NBFCs, and fintech companies entering in the gold loan segment is a concern. The higher competition could drive gradual yield reduction in medium term.

Outlook & Valuation

We believe the company, as the market leader in gold loans, is well-positioned to reap benefits from the momentum in the sector. Due to the factors such as strong Pan-India network, trust, and comparatively better and strong client base, we expect Muthoot to grow its loan book. With the addition of 150 new branches, we expect loan book to accelerate steadily over next couple of years as these branches start to mature. Muthoot's strong brand value, experienced promoters, senior management team, and effective internal controls and audit systems are expected to aid in growth.

At CMP of Rs.950, the stock is trading at 1.45x of FY24E adjusted book value.

Recommendation & Rating

We Maintain HOLD

Sona Blw Precision Forgings Ltd (Sona Comstar)

SONA BLW

Investment Rationale

1. **A proxy play on the wider adoption of EVs:**
In a bid to move towards cleaner energy and environment friendly transportation, the world has been shifting from ICE-driven vehicles to battery-driven electric vehicles (BEVs). With the advancement in technology and a reduction in costs, the penetration of EVs is expected to grow exponentially. Moreover, several steps are being taken to increase the penetration of EVs in India. The government's battery-swapping policy is one such measure which should boost the adoption of EVs in India.

2. **Strong order book gives earnings visibility:**
The company had an order book worth Rs.20500 cr at the end of Q1FY23, of which 67% are for EVs. The strong order book gives earnings visibility. Company has been awarded six new EV programmes and four new customers in the quarter gone by. It now has 36 EV programmes across 23 different customers. Management expects three large EV orders to go into production in H2FY23, which will boost the earnings performance of the company.

3. **Strong Clientele: Higher Interest Rates on Fresh Disbursements:**
Company has established strong relationships with its customers on the back of superior technology know-how and good quality products. In the global markets, it has partnered with Jaguar and Land Rover, Daimler, John Deere, Renault Nissan, Volvo cars and Jing-Jin Electric and among other. In India, it has partnered with M&M, Volvo Eicher, Escorts, Ashok Leyland, Maruti Suzuki, Ampere Vehicles.

Quarterly Performance:

During the quarter ended June 2022, Sona Comstar has posted muted set of numbers due to persistent challenges faced by the automotive sector. The topline increased by 7.1% QoQ to Rs. 589 crores. The Battery EV contribution to sales was 29% in Q1FY23, which is materially higher than mere 2% in FY20. Battery EV continues to be the dominant and secular theme for the company. It's ICE dependence continues to reduce steadily going from 25% in FY21 to 17% in Q1FY23. The revenue mix increased from E2W/E3W segment from 1.5% in FY22 to 4% in Q1FY23.

Sona Blw Precision Forgings Ltd (Sona Comstar)

SONA BLW

Absolute EBITDA increased by 2.7%/5.3% YoY/QoQ, while EBITDA margin was impacted by 352/43 bps YoY/QoQ due to raw material price increases, primarily due to arithmetic effect despite material price passthrough. Additional costs for power outages of Rs. 2.1 crores and one-time expenses for tech partnerships of Rs. 1.3 crores offset the positive impact of operating leverage. Lower other income along with higher tax outgo weighed the bottom line by 27.5% QoQ.

Financial Table

Rs in Cr	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E	EV/EBITDA
2020	1,038.00	242.30	23.30%	360.30	6.40	53.20%	106.70	159.30
2021	1,566.30	441.00	28.20%	215.20	3.80	17.00%	180.90	89.30
2022	2,130.60	559.10	26.20%	361.50	6.20	21.40%	109.80	71.20
2023E	2,853.20	743.20	26.00%	437.70	7.50	20.20%	62.30	36.60
2024E	3,921.90	1,090.30	27.80%	681.20	11.60	26.50%	40.00	24.80

Risks to our call

Increase in raw material costs: Any weakness in demand and further rise in raw material prices could significantly impact financial performance.

Chip shortage concerns: Any concerns on the semiconductor chip shortage front could hamper performance.

Sona Blw Precision Forgings Ltd (Sona Comstar)

SONA BLW

Outlook & Valuation

The company has not only been able to leverage its capabilities in technology, hardware, and software to develop new products but also is strengthening itself in the field of autonomous/connected vehicles. The company, despite facing challenges, has posted the strong quarter ended June 2022 and from the H2FY22, as the company progresses to execute the existing order book, the business is expected to be better and margins. Benefit from decline in raw material prices started will also aid margins. Sona Comstar is a structural play on global electrification of automotives.

At CMP of Rs 460, the stock trades at ~40x of FY24E earnings

Recommendation & Rating

We Maintain HOLD

SOLAR

Investment Rationale

1. **Robust market position in the explosives industry**
The group is one of India's largest manufacturers and exporters of explosives and initiating systems, with a market share of around 24% in the explosives industry. Its Nagpur manufacturing facility is the world's largest single-location cartridge plant. It is one of the few players with a comprehensive product portfolio and the ability to develop and supply customised products. In addition to experiencing healthy growth in the domestic market, it has expanded significantly in the international market in recent years. It is Coal India Ltd's largest supplier of explosives.

2. **Bulk Explosives:**
The bulk explosives are used for high-intensity blasting operations. As a result, mining is the primary end-user industry for bulk explosives. Coal mining is the largest end-user of bulk explosives in India, accounting for 80% of total off-take, with Coal India being the largest customer, followed by other miners such as Singareni Colliers.

Mining companies buy obtain bulk explosives through the tender process. One tonne of coal requires approximately 1.6kg of explosives. Ammonium nitrate is a critical raw material that accounts for 65% to 70% of total raw material costs. SIL obtains these raw materials primarily from domestic fertiliser companies such as Deepak Fertilizer, GNFC, RCF, and others, with imports accounting for less than 10% of total requirements.

3. **Defence - the future growth engine:**
SIL's core competency is to carve out a dominant position in a highly regulated industry with a long gestation period and high entry barriers. SIL has consistently focused on consumable products that have a strong synergy with their existing industrial explosives business. It first entered the defence market in 2010, and has since invested Rs. 700 crores in this segment.

4 **Export market - key growth drivers and game changer for Solar:**
Company now exports to 55 countries and has manufacturing facilities in Nigeria, Zambia, Ghana, South Africa, Turkey, and Australia. It entered the overseas manufacturing market in FY11, and its overseas revenues have grown at a CAGR of 20% between FY12 and FY22. SIL is the largest exporter of explosives and accessories from India. The plants at Ghana and South Africa have started in the past five years while Tanzania has started in FY22. Moving forward, the company intends to expand capacity in existing geographies while also establishing new manufacturing facilities in 3-4 new countries over the next 2-3 years.

Quarterly Performance:

- Revenue for the quarter came in at Rs 1615.9 crore, up 95.8% YoY & 22.7% QoQ. Volume = in Explosives were rose 12.8% YoY and dipped 3.9% QoQ, whereas realisations jumped 96.8% YoY and 4.6% QoQ. Accessories segment registered an improvement of 19.8% YoY to Rs 115 crore. Defence segment revenue came in at Rs 64.3 crore, up 36.9% YoY and dipped 11.5% QoQ. Overseas and Exports segment revenue came in at Rs 593.2 crore, up 90.2% YoY and 74.7% QoQ.
- Gross margins expanded 40 bps YoY & 550 bps QoQ (Gross margins expanded QoQ due to higher realisation). EBIDTA margins dipped QoQ and YoY and came in at 17.5% vs 20% in Q4FY22 (EBITDA margins dipped QoQ due higher other expenses). Posted an EBIDTA of Rs 252.4 crore, up 62% YoY & 7.7% QoQ.
- SIL posted a PAT (Post Minority interest) of Rs 170.2 crore in Q1FY23 vs Rs 167.9 crore in Q4FY22 & Rs 97.5 crore in Q1FY22.
- Company has maintained its revenue growth guidance of 30% out of which 15-17% will be volume growth and rest will be value growth. EBITDA margins to be in range of 20-22% in coming quarters mainly on relief in raw material prices.

SOLAR

Financial Table

Year End March (Rs. in Crores)	Net Sales	EBITDA	EBITDA Margin	Net Profit	Basic EPS	ROE (%)	PE	EV/EBITDA
2020	2,237.30	434.30	19.40%	278.70	29.60	18.70%	30.90	20.40
2021	2,515.60	514.60	20.50%	288.10	30.50	16.80%	42.00	23.70
2022	3,947.60	734.60	18.60%	455.50	48.80	21.90%	57.40	35.50
2023E	4,849.70	955.40	19.70%	609.50	67.30	25.00%	52.50	34.30
2024E	5,998.80	1,193.80	19.90%	790.10	87.30	26.00%	40.50	27.30
2025E	7,741.00	1,563.70	20.00%	1063.3	117.5	27.00%	29.30	20.20

Risks to our call

Volatility in raw material prices: Any prolonged volatility in raw material (Ammonium Nitrate) prices, along with the inability to completely pass on higher prices due to stiff competitive intensity, can impact overall profitability.

Delay in getting defence orders: SIL's Q1FY23 order book in defence is Rs. 538 Cr, going forward considering the high gestation period of technical evaluation & ordering process there is a potential risk of delay in getting new defence orders.

Slowdown in mining and infrastructure sectors: Mining and infrastructure are the two key customer segments for SIL. Any slowdown in these could impact the growth in revenues. These two customer segments also face regulatory risks in terms of Govt.'s changing policies by incumbent governments.

SOLAR

Outlook & Valuation

The positive earnings growth trajectory is expected to continue as a result of the key growth drivers of leadership, strong demand for packaged explosives, rising opportunities in the defence sector, improving overseas market dynamics, and a buoyant margin profile.

At CMP of Rs 3441 (based on our estimates), As per our estimates, the stock is trading at ~29.3x its FY25E EPS.

Recommendation & Rating

We Maintain HOLD

zomato

Investment Rationale

1. **Category Leader in India's Food Delivery Space:**
Indian food delivery industry has undergone a period of consolidation in recent years, with only two players (Zomato and Swiggy) remaining from eight or nine, with Zomato gaining a strong foothold with a 55% market share and Swiggy filling the gap. We believe that the India consumption story is strong, and that Zomato, as one of two companies in a duopoly industry, could benefit from the growing trend of online ordering. We also believe that rapid digital commerce adoption will drive user acquisition.

2. **Growth in Operations and Focus on Profitability:**
Average monthly transacting users have increased by ~36% and 6.4% YoY and QoQ, respectively, while the average monthly order frequency has also increased by 10% in the same period. Growth in monthly transacting customers will be a function of higher repeat rate of the existing customer base and new customer addition which remains robust.. Increase in customer delivery charges leads to consolidation of multiple orders which results in AOVs going-up and the frequency coming down. The management expects the customer stickiness to increase over time which should lead to an increase in order frequency.

   Zomato is aiming for revenue growth along with reducing losses. The management said that on a company level, it would be able post adjust EBITDA break even by Q2FY24.

3. **Management Clearing Air Regarding Blinkit Acquisition:**
The management has tried to assuage concerns on acquisition of Blinkit by mentioning that founder's (Mr Deepinder Goyal's) interests are fully aligned to interest of all other shareholders in two ways one that if the deal it is a bad deal for other shareholders, it would be equally bad for him as a shareholder, second 100% of his compensation is stock linked; He does not draw fixed salary.

Zomato Ltd (Zomato)

zomato

Zomato's overall investment guidance in Blinkit has been reduced from USD 400 million to USD 320 million, as the Blinkit has reduced its losses. Operating leverage and improved execution have reduced losses. Furthermore, revenue per order has increased as a result of an increase in commissions and customer delivery charges.

Quarterly Performance:

During the quarter ended June 2022, Zomato saw a robust recovery in its business aided by all segments. Food delivery and Hyperpure both contributed to the adjusted revenue. Food delivery grew 14.8% QoQ and 42.7 YoY. Hyperpure revenue grew 42.1% QoQ and 3.4x YoY to Rs. 270 crores. Other segments such as dining out, Zomato Pro, among others also increased 16.7% QoQ and 40% YoY. Growth in revenue was driven by A) ~10% QoQ growth in Gross Order Value (GOV) to Rs. 6,430 crores in Q1FY23 and B) growth in revenue per order. Adjusted EBITDA loss reduced to Rs. 150 crores in Q1FY23 as compared to Rs. 220 crores in Q4FY22. Further, on adjusted EBITDA level, Zomato's food delivery business was break even. On the bottom line, the company's losses almost halved to Rs. 186 crores compared to losses of ~Rs. 360 crores. Zomato is aiming for revenue growth along with reducing losses.As of June 2022, the company had cash balance of Rs. 11,400 crores.

Financial Table

Rs. in Crores	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/Sales
2021	1,993.80	-475.10	-23.83%	-812.80	-1.50	-10.00%	17.20
2022	4,192.40	-1,850.80	-44.15%	-1,222.50	-1.60	-7.40%	12.00
2023E	5,879.50	-1,502.40	-25.55%	-1,290.60	-1.60	-8.50%	8.60
2024E	7,869.90	-1,106.00	-14.05%	-769.80	-1.00	-5.30%	6.40
2025E	10,392.50	-681.10	-6.55%	-186.10	-0.20	-1.30%	4.80

Risks and Concerns

The business operates in a highly competitive market. Other food delivery firms, such as Swiggy, chain restaurants with their own online ordering platforms, cloud kitchens, restaurants with their own delivery fleets, and companies that provide point of sale solutions and restaurant delivery services compete with it.

If the company is unable to retain existing restaurant partners, customers, or delivery partners, or add new restaurant partners, delivery partners, or customers to its portfolio in a cost-effective manner, its business could be adversely impacted.

As of FY22, the company had a loss of Rs. 1,221 crores. Given the considerable costs to grow the business, it is expected that losses may continue.

Outlook & Valuation

The business is having a bumpy ride on quarter to quarter basis. We saw the mix set of numbers in Q3FY22 even though it was the festive quarter. In Q4FY22, the business saw an improvement and now in Q1FY23, Zomato was able to reduce the losses to almost half from Q4FY22. During the quarter, the food delivery business was at break even on adjusted EBITDA basis.

Additionally, the management did its best to address the Blinkit acquisition critics, which helped to fuel positive sentiment. We believe, the India consumption story is strong and Zomato, being one of the two companies in a duopoly industry, could benefit from the growing trend of ordering online. We also believe that rapid adoption of digital commerce could drive user acquisition.

At CMP of Rs 60 (based on our estimates), the stock trades at 4.8x of P/Sales of FY25E.

Recommendation & Rating

We Maintain HOLD

ZEE

Investment Rationale

1. **Potential Re-rating of Stock After the Zee-Sony Merger:**
The combined entity would be public-listed and Sony would hold a majority stake which shall assuage concerns on corporate governance in the past. Sony's success across entertainment (including gaming and sports), combined with ZEEL's strong expertise in content creation and deep consumer connect will add value to the merged entity. Further, Sony's USD 1.575 billion capital injection will enable the entity to drive content creation across platforms, strengthen its footprint in digital ecosystem, and pursue other growth opportunities.

   We believe that the pending merger – *for which the company has received the necessary approval/s from the stock exchanges and now the application would be filed to NCLT* – would bring synergies for the combined entity and could potentially re-rate the stock.

2. **Zee 5 is Gaining Momentum:**
Zee's digital efforts have begun to bear fruit after several quarters of investment, with increases in DAUs despite a marginal decline in MAUs. Management stressed that this is a strategic decision aimed at active, engaged, and paying subscribers. In June 2022, it had 11.3 million global DAU and 103.3 million global MAU, compared to 10.5 million and 104.8 million in Q4FY22.

   The segment is gaining traction, but at a cost. The segment's revenues were Rs. 160 crores in Q1FY23, up 43% YoY, due to strong content slate addition. It did, however, report operating losses of Rs. 235 cr, compared to losses of Rs. 203 cr in Q4FY22. Zee5 increased the price of its annual subscription pack twice in the last year, from Rs. 499 to Rs. 599 in March 2022 and to Rs. 699 in July 2022.

3. **Growth on viewership could improve advertisement revenue:**
The management, in Q1FY23 conference call, emphasised that the FMCG industry, which contributes the most to advertising revenue, has reduced spending as a result of the current inflationary pressures, which has had an impact on performance. However, the festive season is expected to be robust and companies could increase the spending to push the sales. The management suggests that the fiscal year could see high mid to low double-digit growth in the segment. Also, the NTO 2.0 could dampen the subscription revenue, but, as per the management's belief, the embargo could be lifted soon.

Zee Entertainment Enterprises Ltd (ZEEL)

ZEE

Quarterly Performance:

ZEEL posted weak set of numbers in Q1FY23 dragged by lower advertisement revenue as well as decline in subscription revenue. Domestic ad revenue fell 20% from pre-covid due to weak macroeconomic indicators, the transfer of Zee Anmol from a free-to-air channel to a pay channel, and a drop in Zee's viewership share from 17% QoQ to 16% (peak: 21%). Domestic subscription revenue fell by 10% QoQ. Management blamed the delay on B2B deal renewals. Due to NTO 2.0, subscription revenue is probably going to struggle in the short term.

At 12.8%, the EBITDA margin was at an all-time low. These are the result of ongoing investments made across all business sectors. At 28%, the core broadcast business margin has been strong and positive. The management maintains a positive outlook for the long term, stressing that the recent downturn in the growth of advertising revenue is only temporary. Despite the near-term revenue headwinds in ad revenue, the company indicated that investment in content, marketing, technology, and product will continue to capture viewership and engagement share. Furthermore, it reaffirmed its intention to expand movie production with a strong slate of films in Hindi, Tamil, Telugu, Marathi, and Punjabi.

Financial Table

Rs. in Crores	Net Sales	EBITDA	EBITDAM	PAT	EPS	ROE	P/E	EV/EBITDA
FY20	8,129.90	1,261.90	15.50%	526.50	5.50	5.80%	22.60	9.20
FY21	7,729.90	1,593.90	20.60%	800.10	8.30	8.20%	24.40	11.40
FY22	8,189.30	1,718.40	21.00%	955.77	10.00	9.10%	29.00	15.40
FY23E	8,970.00	1,875.20	20.90%	1,237.72	12.90	11.00%	20.60	12.80
FY24E	9,828.00	2,143.50	21.80%	1,484.31	15.50	12.10%	17.20	10.90

ZEE

Risks to our call

Working Capital Intensive: The operation of ZEEL requires a lot of working capital, since it has a lot of inventory in the form of content creation and rights. To compete with the market's other aggressive players, the company is investing heavily in its OTT platform, ZEE5.

Volatile Nature of Main Advertising Revenue: Advertisement revenue largely depends on macroeconomic conditions, viewership and the quality and popularity of the channel and content.

High Receivables: High Receivables from related parties having weak financial profiles continues to remain a concern.

Outlook & Valuation

We believe that the merger with Sony to boost shareholders' value backed by Sony's success across entertainment genres, combined with ZEEL's expertise in content creation and consumer connect. The merger could result in India's largest broadcaster with more than ~25% viewership share.

Zee's investment in movie rights has been steadily increasing from the last 4-5 years, which is negatively impacting FCF generation. In our opinion, the impact has off set the enthusiasm of the investors in terms of the merger, which may further take two to three quarters.

The stock trades at ~17x of FY24E earnings.

Recommendation & Rating

We Maintain HOLD

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