



Choice
Nurturing Financial Excellence

IPO REPORT

**“SUBSCRIBE” to
Ami Organics Ltd.**

Market dominance in key APIs intermediates of high-growth high-margin therapeutic areas

Salient features of the IPO:

- Specialty chemicals manufacturer **Ami Organics Ltd.** (AOL), is coming up with an IPO to raise Rs. 570cr, which opens on 1st Sept. and closes on 3rd Sept. 2021. The price band is Rs. 603 - 610 per share.
- The issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS part of the issue. Of the net proceeds from the fresh issue, Rs. 140cr will be used to prepay or repayment of the debt and another Rs. 90cr will be utilized to fund the working capital requirements of the company.
- The company in consultation of the BRLMs have undertaken a pre-IPO placement aggregating to Rs. 100cr. It allotted 0.17cr shares at a price of Rs. 603 per share.

Key competitive strengths:

- Strong and diversified product portfolio ably supported by strong R&D and process chemistry skills
- Extensive geographical presence and diversified customer base with long standing relationships
- High entry barriers in the chemicals manufacturing industry in which the company operates
- Strong sales and marketing capabilities
- Experienced and dedicated management team
- Consistent financial performance

Risk and concerns:

- Unexpected change in government policies and regulations
- Revenue concentration risk
- Unfavorable forex rates
- Difficulty in sustaining the profitability
- Competition

Below are the key highlights of the company:

- AOL is a R&D driven manufacturer of specialty chemicals with varied end usage. It focuses towards the development & manufacturing of pharma intermediates for regulated and generic active pharmaceutical ingredients (API) and new chemical entities. As per the F&S Report, the company is one of the major manufacturers of pharma intermediates for certain key APIs, which finds application in certain high-growth high-margin therapeutic areas like anti-retroviral, anti-inflammatory, anti-psychotic, anti-cancer, anti-Parkinson, anti-depressant and anti-coagulant.
- It also manufactures key starting material for agrochemical and fine chemicals. The company diversified the product offerings by completing the acquisition of two manufacturing facilities operated by Gujarat Organics Ltd. (GOL), which manufactures added preservatives (parabens and parabens formulations, which have end usage in cosmetics, animal food and personal care sector) and other specialty chemicals (with end usage in the cosmetics, dyes polymers and agrochemicals sector).
- Since inception, AOL has developed and commercialized over 450 pharma intermediates for APIs. Business from this segment has increased by 21.7% CAGR over FY19-21 and contributed around 88% to the total revenue. On a small base, business from the Specialty chemicals segment increased by 173.6% CAGR and contributed 4.9% to total revenue in FY21.

Recommendation	SUBSCRIBE
Price band	Rs. 603 - 610 per share
Face value	Rs. 10
Shares for fresh issue	0.328 - 0.332cr shares
Shares for OFS	0.606cr shares
Fresh issue size	Rs. 200cr
OFS issue size	Rs. 365.4 - 369.6cr
Total issue size	0.934 - 0.938cr shares (Rs. 565.4 - 569.6cr)
Bidding date	1 st Sept. - 3 rd Sept. 2021
MCAP at higher price band	Rs. 2,223cr
Enterprise value at higher price band	Rs. 2,057cr
Book running lead manager	Intensive Fiscal Services Pvt. Ltd., Ambit Pvt. Ltd. and Axis Capital Ltd.
Registrar	Link Intime India Pvt. Ltd.
Sector	Specialty chemicals
Promoters	Mr. Nareshkumar Ramjibhai Patel, Mr. Chetankumar chhaganlal Vaghasia, Mrs. Shital Nareshbhai Patel and Mrs. Parul Chetankumar Vaghasia

Issue breakup		
Category	Percent of issue (%)	Number of shares
QIB portion	50%	0.467 - 0.469cr shares
Non institutional portion	15%	0.140 - 0.141cr shares
Retail portion	35%	0.327 - 0.328cr shares

Indicative IPO process time line		
Finalization of basis of allotment		8 th Sept. 2021
Unblocking of ASBA account		9 th Sept. 2021
Credit to demat accounts		13 th Sept. 2021
Commencement of trading		14 th Sept. 2021

Pre and post - issue shareholding pattern		
	Pre-issue	Post-issue
Promoter & promoter group	47.22%	41.05%
Public	52.78%	58.95%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot	
Number of shares per lot	24
Application money	Rs. 14,640 per Lot

Analyst	
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Key highlights of the company (Contd...):

Company name	Face value (Rs.)	CMP (Rs.)	MCAP (Rs. cr)	EV (Rs. cr)	Stock return (%)				FY21 operating revenue (Rs. cr)	FY21 EBITDA (Rs. cr)	FY21 PAT (Rs. cr)	FY21 EBITDA margin (%)	FY21 PAT margin (%)
					1 M	3 M	6 M	1 Y					
Ami Organics Ltd.	10	610	2,223	2,057					341	68	42	20.0%	12.3%
Aarti Industries Ltd.	5	927	33,586	35,666	3.2%	11.6%	50.1%	64.7%	4,506	982	523	21.8%	11.6%
Atul Ltd.	10	8,985	26,583	25,596	-0.9%	5.6%	37.1%	43.4%	3,731	917	656	24.6%	17.6%
Hikal Ltd.	2	647	7,982	8,460	23.3%	50.8%	307.3%	283.2%	1,720	323	133	18.8%	7.7%
Neuland Laboratories Ltd.	10	1,669	2,141	2,260	-17.9%	-25.8%	-17.8%	67.2%	937	147	81	15.7%	8.6%
Valiant Organics Ltd.	10	1,287	3,494	3,645	-9.6%	-18.8%	2.2%	-6.6%	755	205	115	27.2%	15.2%
Vinati Organics Ltd.	1	1,789	18,388	18,202	-7.0%	0.2%	27.4%	65.0%	954	353	269	37.0%	28.2%
Average												24.2%	14.8%

Company name	3Y Top-line growth (CAGR)	3Y EBITDA growth (CAGR)	3Y PAT growth (CAGR)	3Y average EBITDA margin	3Y Average PAT margin	3Y Capital employed growth (CAGR)	3Y CFO growth (CAGR)	3Y average working capital cycle (days)	3Y average fixed asset turnover (x)	3Y average total asset turnover (x)	3Y average RoE	3Y average RoIC
Ami Organics Ltd.	19.5%	27.2%	34.2%	18.3%	11.2%	123.7%	35.3%	58.3	2.4	0.9	20.6%	18.7%
Aarti Industries Ltd.	4.0%	0.8%	3.2%	22.8%	12.1%	15.5%	8.9%	56.6	1.1	0.7	17.2%	15.6%
Atul Ltd.	-3.9%	9.4%	23.2%	21.9%	14.9%	18.0%	33.4%	59.6	2.7	0.9	18.1%	18.7%
Hikal Ltd.	4.0%	4.1%	13.6%	18.5%	6.6%	8.5%	11.1%	104.3	1.8	0.9	12.7%	13.0%
Neuland Laboratories Ltd.	18.5%	58.6%	121.5%	12.6%	4.4%	9.1%	64.6%	116.4	1.2	0.6	5.0%	5.1%
Valiant Organics Ltd.	4.4%	6.8%	-7.3%	26.6%	17.6%	35.3%	21.9%	29.3	2.1	1.1	35.4%	28.7%
Vinati Organics Ltd.	-8.0%	-8.8%	-2.4%	38.3%	28.6%	19.5%	4.5%	82.0	1.4	0.7	23.5%	21.5%
Average	3.2%	11.8%	25.3%	23.5%	14.0%	17.6%	24.1%	74.7	1.7	0.8	18.6%	17.1%

Company Name	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt equity ratio	Total asset turnover ratio	RoE (%)	RoCE (%)	P / E (x)	P / B (x)	EV / Sales (x)	EV / EBITDA (x)	MCAP / Sales (x)	Earning yield (%)
Ami Organics Ltd.	14.8	128.1	0.0	0.3	0.5	11.6%	13.4%	41.2	4.8	6.0	25.7	6.5	2.4%
Aarti Industries Ltd.	14.4	96.6	1.2	0.7	0.6	14.9%	14.3%	64.2	9.6	7.9	36.3	7.5	1.6%
Atul Ltd.	221.6	1,293.3	0.0	0.0	0.7	17.1%	18.9%	40.5	6.9	6.9	27.9	7.1	2.5%
Hikal Ltd.	10.8	75.7	1.2	0.6	0.9	14.3%	18.1%	60.0	8.6	4.9	26.2	4.6	1.7%
Neuland Laboratories Ltd.	62.8	613.0	2.0	0.2	0.7	10.3%	11.2%	26.6	2.7	2.4	15.4	2.3	3.8%
Valiant Organics Ltd.	42.2	185.0	2.5	0.4	0.9	22.8%	30.4%	30.5	7.0	4.8	17.8	4.6	3.3%
Vinati Organics Ltd.	26.2	150.2	0.5	0.0	0.6	17.5%	19.1%	68.3	11.9	19.1	51.5	19.3	1.5%
Average			1.2	0.3	0.7	16.1%	18.7%	48.3	7.8	7.7	29.2	7.6	2.4%

Source: Choice Broking Research

- The company supplies its products to more than 150 customers globally, with overseas clients contributing 52% of the revenue. AOL's clientele includes Laurus Labs Ltd., Cadila Healthcare Ltd., Cipla Ltd., Organike s.r.l.a Socio Unico, Fermion Oy, Fabbrica Italiana Sintetici S.p.A, Chori Co. Ltd., Medichem S.A. and Midas Pharma GmbH. Italy, Finland, France and China, contributed to 35.5%, 17.7%, 10.6% and 9.5% respectively, to the export revenue in FY21. It has established long standing relationships with key customers. Thirteen customers have been associated with the company since the past 10 years and fifty customers since the past five years.
- Over FY19-21, AOL has reported a robust growth in the business with significant improvement in the profitability, especially in the pandemic year i.e. FY21. On the back of higher demand of its products, the company has reported a 19.5% CAGR rise in consolidated top-line to Rs. 340.6cr in FY21. Business from the Pharma intermediates increased by 21.7% CAGR, while on a lower base, business from the Specialty chemicals grew by 173.6% CAGR. Export and domestic increased by 21.8% and 17.9% CAGR, respectively, over FY19-21. Total operating expenditure increased by 15.1% CAGR (lower than top-line growth), thereby leading to a 38% CAGR rise in consolidated EBITDA to Rs. 80.2cr in FY21. EBITDA margin expanded by 589bps during the period to be at 23.5% in FY21. Reported PAT was higher by 52.3% CAGR and stood at 54cr in FY21. PAT margin expanded by 609bps during the period to at 15.9% in FY21.
- AOL reported a positive cash flow from operating activities during the period, which increased by 35.3% CAGR. Average operating cash flow stood at Rs. 23cr during FY19-21. Consolidated financial liabilities increased by 55.9% CAGR, however debt to equity ratio stood at 0.8x in FY21 as compared to 0.7x in FY19. Average RoIC and RoE stood at 24.3% and 28.4%, respectively, over FY19-21.

Key highlights of the company (Contd...):

- On 31st Mar. 2021, the company completed the acquisition of two manufacturing plants of GOL. AOL's FY21 financial statement doesn't include the impact of the acquired business. Acquisition of GOL's assets has given AOL an access to high growth specialty chemicals market. With asset turnover of around 3.5x for GOL assets, AOL's consolidated turnover will be higher in FY22 and FY23. As per RHP, GOL's acquired business has generated a business of Rs. 106cr in FY21 with operating margin far lower than the existing business of AOL. Thus on consolidated basis, AOL's profitability will be lower than what reported over FY19-21. Additionally, significant improvement in the FY21 profitability is one-off and thus is not sustainable. So overall we are anticipating robust business growth in the medium term but with lower profitability.

Peer comparison and valuation: At higher price band of Rs. 610, AOL is demanding a P/E multiple of 41.2x (to its FY21 EPS of Rs. 14.8), which is at discount to the peer average of 48.3x. Anticipating lower profitability in the medium term, we feel that the issue is reasonably priced. Considering the dominant market positioning of the company in the manufacturing of pharma intermediates for certain high-growth high-margin therapeutic areas, business growth from the specialty chemicals and lower debt levels post-IPO, we assign a "**SUBSCRIBE**" rating for the issue.

About the issue:

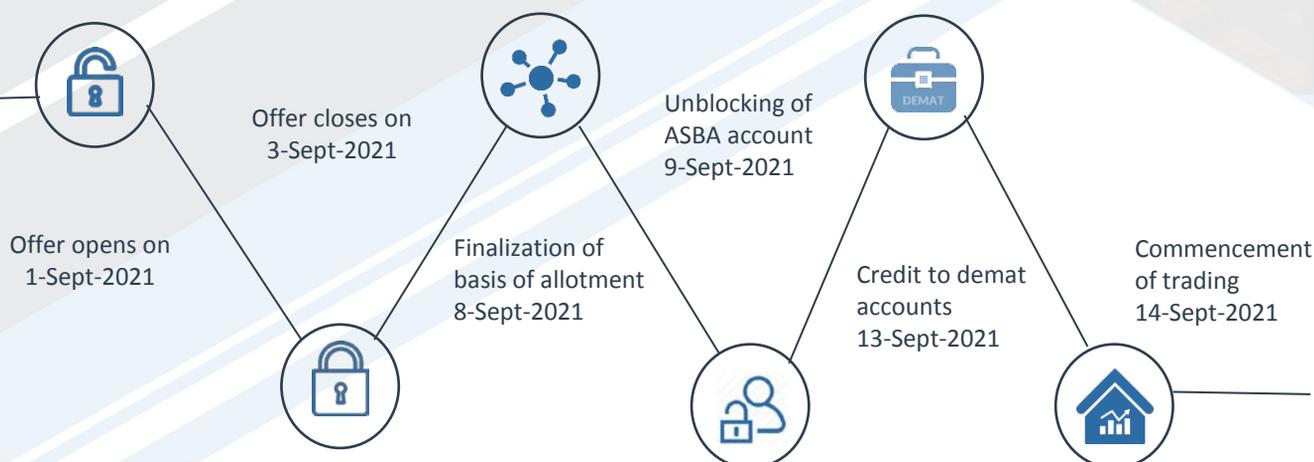
- AOL is coming up with an initial public offering (IPO) with 0.934 - 0.938cr shares (fresh issue: 0.328 - 0.332cr shares; OFS shares: 0.606cr shares) in offering. The offer represents around 25.63% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 565.4 - 569.6cr.
- The issue will open on 1st Sept. 2021 and close on 3rd Sept. 2021.
- The issue is through book building process with a price band of Rs. 603 - 610 per share.
- The issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS part of the issue. Of the net proceeds from the fresh issue, Rs. 140cr will be used to prepay or repayment of the debt and another Rs. 90cr will be utilized to fund the working capital requirements of the company.
- The company in consultation of the BRLMs have undertaken a pre-IPO placement aggregating to Rs. 100cr. It allotted 0.17cr shares at a price of Rs. 603 per share
- 50% of the net issue are reserved for qualified institutional buyers, while 15% and 35% of the net issue is reserved for non-institutional bidders and retail investors, respectively.
- Promoter currently holds 47.22% stake in the company and post-IPO this will come down to 41.05%. Public holding will increase from current 52.78% to 58.95%.

Pre and post-issue shareholding pattern (%)

	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group (%)	47.22%	41.05%
Public (%)	52.78%	58.95%

Source: Choice Equity Broking

Indicative IPO process time line:



Financial performance:

Performance over FY19-21: Over FY19-21, AOL has reported a robust growth in the business with significant improvement in the profitability, especially in the pandemic year i.e. FY21.

On the back of higher demand of its products, the company has reported a 19.5% CAGR rise in consolidated top-line to Rs. 340.6cr in FY21. Business from the Pharma intermediates increased by 21.7% CAGR, while on a lower base, business from the Specialty chemicals grew by 173.6% CAGR. Export and domestic increased by 21.8% and 17.9% CAGR, respectively, over FY19-21.

Total operating expenditure increased by 15.1% CAGR (lower than top-line growth), thereby leading to a 38% CAGR rise in consolidated EBITDA to Rs. 80.2cr in FY21. EBITDA margin expanded by 589bps during the period to be at 23.5% in FY21.

With increase in asset base, depreciation charge increased by 26.9% CAGR, while finance cost increased by 8.7% CAGR. Consequently, reported PAT was higher by 52.3% CAGR and stood at 54cr in FY21. PAT margin expanded by 609bps during the period to at 15.9% in FY21.

AOL reported a positive cash flow from operating activities during the period, which increased by 35.3% CAGR. Average operating cash flow stood at Rs. 23cr during FY19-21. Consolidated financial liabilities increased by 55.9% CAGR, however debt to equity ratio stood at 0.8x in FY21 as compared to 0.7x in FY19. Average RoIC and RoE stood at 24.3% and 28.4%, respectively, over FY19-21.

Consolidated financial snapshot (Rs. cr)	FY19	FY20	FY21	CAGR over FY19-21 (%)	Y-o-Y (% Annual)
Revenue from operations	238.5	239.6	340.6	19.5%	42.1%
EBITDA	42.1	41.0	80.2	38.0%	95.4%
Reported PAT	23.3	27.5	54.0	52.3%	96.6%
Restated reported EPS	6.4	7.5	14.8	52.3%	96.6%
Cash flow from operating activities	14.8	27.1	27.1	35.3%	0.3%
NOPLAT	28.6	30.2	57.4	41.7%	90.2%
FCF		4.3	(82.7)		
RoIC (%)	27.2%	23.4%	22.4%	(484) bps	(100) bps
Revenue growth rate (%)		0.5%	42.1%		
Gross profit growth rate (%)		22.9%	45.5%		
Gross profit margin (%)	37.8%	46.2%	47.3%	953 bps	109 bps
EBITDA growth rate (%)		-2.5%	95.4%		
EBITDA margin (%)	17.6%	17.1%	23.5%	589 bps	642 bps
EBIT growth rate (%)		-5.0%	102.6%		
EBIT margin (%)	16.6%	15.6%	22.3%	575 bps	666 bps
Restated reported PAT growth rate (%)		17.9%	96.6%		
Restated reported PAT margin (%)	9.8%	11.5%	15.9%	609 bps	439 bps
Inventory days	95.1	128.8	114.6	9.8%	-11.1%
Debtor days	116.4	100.9	94.9	-9.7%	-6.0%
Payable days	(168.2)	(169.6)	(138.2)	-9.4%	-18.6%
Cash conversion cycle	43.4	60.1	71.3	28.3%	18.7%
Fixed asset turnover ratio (x)	3.0	2.5	1.8	-21.4%	-26.2%
Total asset turnover ratio (x)	1.1	1.0	0.8	-14.2%	-20.2%
Current ratio (x)	1.2	1.4	1.5	9.0%	8.5%
Total debt (Rs.)	56.3	61.0	137.0	55.9%	124.4%
Net debt (Rs.)	55.8	57.2	134.3	55.1%	134.7%
Debt to equity (x)	0.7	0.5	0.8	9.4%	50.3%
Net debt to EBITDA (x)	1.3	1.4	1.7	12.4%	20.1%
RoE (%)	28.3%	24.6%	32.3%	402 bps	778 bps
RoA (%)	10.9%	11.8%	13.1%	214 bps	122 bps
RoCE (%)	34.9%	26.2%	28.5%	(637) bps	224 bps

Source: Choice Equity Broking



Competitive strengths:

- Strong and diversified product portfolio ably supported by strong R&D and process chemistry skills
- Extensive geographical presence and diversified customer base with long standing relationships
- High entry barriers in the chemicals manufacturing industry in which the company operates
- Strong sales and marketing capabilities
- Experienced and dedicated management team
- Consistent financial performance

Business strategy:

- Diversification of product portfolio by strengthening R&D capabilities
- Augmenting scale through organic and inorganic routes in the current geographic markets and expanding into new geographic markets
- Continue to focus on cost efficiency and improving productivity while employing environmentally friendly processes
- Diversification of business by focusing on organic and inorganic growth opportunities



Risk and concerns:

- Unexpected change in government policies and regulations
- Revenue concentration risk
- Unfavorable forex rates
- Difficulty in sustaining the profitability
- Competition

Financial statements:

Consolidated profit and loss statement (Rs. cr)

	FY19	FY20	FY21	CAGR over FY19 - 21 (%)	Annual growth over FY20 (%)
Revenue from operations	238.5	239.6	340.6	19.5%	42.1%
Cost of raw materials consumed	(152.1)	(137.9)	(174.7)	7.2%	26.7%
Changes in inventories of finished goods/traded goods and work-in-progress	3.6	9.0	(4.8)		
Gross profit	90.1	110.7	161.1	33.7%	45.5%
Employee benefits expense	(11.7)	(17.8)	(21.0)	33.7%	17.9%
Other expenses	(36.3)	(51.9)	(59.9)	28.6%	15.5%
EBITDA	42.1	41.0	80.2	38.0%	95.4%
Depreciation and amortization expense	(2.6)	(3.5)	(4.2)	26.9%	19.0%
EBIT	39.5	37.5	76.0	38.7%	102.6%
Finance costs	(4.8)	(5.6)	(5.6)	8.7%	0.6%
Other income	0.4	2.8	1.4	89.6%	-51.5%
PBT	35.1	34.8	71.7	42.9%	106.4%
Tax expenses	(11.8)	(7.3)	(17.7)	22.5%	143.4%
Reported PAT	23.3	27.5	54.0	52.3%	96.6%

Consolidated balance sheet statement (Rs. cr)

	FY19	FY20	FY21	CAGR over FY19 - 21 (%)	Annual growth over FY20 (%)
Equity share capital	10.5	10.5	31.5	73.2%	200.0%
Other equity	71.7	101.3	135.4	37.4%	33.7%
Non current borrowings	27.8	25.5	92.1	82.2%	261.2%
Non current provisions	1.1	2.4	4.4	96.0%	79.2%
Non current net deferred tax liabilities	2.1	3.1	3.3	23.9%	4.9%
Current borrowings	26.1	33.9	44.5	30.5%	31.3%
Other current financial liabilities	2.4	1.6	0.3	-63.1%	-79.5%
Trade payables	68.4	51.4	84.4	11.1%	64.1%
Current provisions	0.4	0.4	1.0	51.8%	138.5%
Current income tax liabilities	0.1		1.2	259.8%	
Other current liabilities	2.4	1.6	15.2	149.3%	825.5%
Total liabilities	213.2	231.9	413.3	39.2%	78.2%
Property, plant and equipment	57.7	62.2	160.6	66.9%	158.3%
Intangible assets	21.1	23.0	25.7	10.3%	11.7%
Capital work-in-progress	2.0	11.7	0.2	-68.1%	-98.3%
Non current investments	1.6	1.7	1.4	-6.8%	-17.4%
Other non current financial assets	2.3	3.0	2.7	8.5%	-8.4%
Other non current assets	4.4	9.3	6.4	21.0%	-31.0%
Inventories	38.7	52.3	60.4	24.9%	15.3%
Trade receivables	76.1	56.4	120.7	25.9%	114.0%
Cash and cash equivalents	0.5	3.8	2.7	133.1%	-29.7%
Current loans	0.2	0.3	0.3	36.6%	20.6%
Current net tax assets		2.2			
Other current assets	8.7	6.0	32.2	92.6%	439.8%
Total assets	213.2	231.9	413.3	39.2%	78.2%

Source: Choice Equity Broking

Financial statements:

Consolidated cash flow statement (Rs. cr)

Particulars (Rs. mn)	FY19	FY20	FY21	CAGR over FY19 - 21 (%)	Annual growth over FY20 (%)
Cash flow before working capital changes	42.6	44.9	79.7	36.8%	77.5%
Working capital changes	(14.0)	(9.4)	(38.4)	65.8%	307.2%
Cash flow from operating activities	14.8	27.1	27.1	35.3%	0.3%
Purchase and construction of property, plant and equipment	(21.4)	(21.6)	(106.6)	123.2%	393.3%
Cash flow from investing activities	(20.9)	(23.9)	(100.4)	119.3%	319.3%
Cash flow from financing activities	5.6	0.2	72.1	258.2%	37069.6%
Net cash flow	(0.4)	3.3	(1.1)	66.3%	
Opening balance of cash	0.9	0.5	3.8	105.7%	676.2%
Closing balance of cash	0.5	3.8	2.7	133.5%	-29.7%

Consolidated financial ratios

Particulars (Rs. mn)	FY19	FY20	FY21
Revenue growth rate (%)		0.5%	42.1%
Gross profit growth rate (%)		22.9%	45.5%
Gross profit margin (%)	37.8%	46.2%	47.3%
EBITDA growth rate (%)		-2.5%	95.4%
EBITDA margin (%)	17.6%	17.1%	23.5%
EBIT growth rate (%)		-5.0%	102.6%
EBIT margin (%)	16.6%	15.6%	22.3%
Restated reported PAT growth rate (%)		17.9%	96.6%
Restated reported PAT margin (%)	9.8%	11.5%	15.9%

Turnover ratios

	FY19	FY20	FY21
Inventories turnover ratio (x)	6.2	5.3	6.0
Trade receivable turnover ratio (x)	3.1	3.6	3.8
Accounts payable turnover ratio (x)	3.5	4.0	5.0
Fixed asset turnover ratio (x)	3.0	2.5	1.8
Total asset turnover ratio (x)	1.1	1.0	0.8

Return ratios

	FY19	FY20	FY21
RoE (%)	28.3%	24.6%	32.3%
RoA (%)	10.9%	11.8%	13.1%
RoCE (%)	34.9%	26.2%	28.5%

Per share data

	FY19	FY20	FY21
Restated adjusted EPS (Rs.)	6.4	7.5	14.8
DPS (Rs.)	0.0	0.0	0.0
BVPS (Rs.)	22.6	30.7	45.8
Operating cash flow per share (Rs.)	4.1	7.4	7.4
Free cash flow per share (Rs.)		1.2	(22.7)
Dividend payout ratio	0.0%	0.0%	0.0%

Note: Ratios calculated on pre-issue data; Source: Choice Equity Broking

Disclaimer

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