



In partnership. With trust.

# Wipro

Sector: Technology

## 3QFY18 Result Update

CMP: ` 328

*Still not of the woods, maintain Hold*

Recommendation: Hold

### Market statistics

|                         |           |
|-------------------------|-----------|
| Current stock price (`) | 328       |
| Shares O/S (cr.)        | 452.3     |
| Mcap (` cr)             | 148,571   |
| 52W H/L (`)             | 335/223   |
| 6m avg. volume          | 2,904,869 |
| Bloomberg               | WPRO IN   |

**Wipro' 3QFY18 IT Services revenues at US\$2,013m grew 0.9% QoQ in cc terms, flat QoQ in US\$ terms and lower than the mid-range of the re-stated guidance band of US\$1,996-2,036mn after adjusting for cross currency movement. Overall EBIT margin was 16.7%, (down 10bps QoQ, excluding the provision of Rs.3175mn taken on account of client bankruptcy). PAT stood at `19.4bn. Guidance for 3QFY18 came in at 1% to 3% which was in-line with expectation after a flat quarter. WPRO successfully completed a buyback of Rs110bn (7.06% of capital). We maintain our Hold recommendation rating on the stock looking at relatively cheap valuations. WPRO remains our least preferred stock in Tier I IT space.**

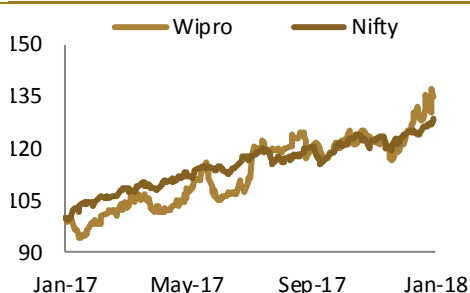
### Shareholding pattern

|                                       |       |
|---------------------------------------|-------|
| Promoters                             | 74.33 |
| Domestic Institution                  | 5.37  |
| Foreign Institution                   | 10.61 |
| Non-institution                       | 9.69  |
| of which more than 1%                 |       |
| Life Insurance Corporation of India   | 3.13  |
| First State Asia Pacific Leaders Fund | 1.28  |

**Margins as per expected:** Wipro' 2QFY18 IT Services revenues at US\$2,013m grew 0.9% QoQ in cc terms, flattish QoQ in US\$ terms lower than the mid-range of the re-stated guidance band of US\$1,996-2,036mn after adjusting for cross currency movement. IT Services EBIT margin decreased 10bps QoQ to 17.2%. Overall EBIT margin was 16.7%.

**Guidance for 4QFY18, inline after a muted growth this quarter -** For 4QFY18, WPRO expects revenue of USD2,033-2,053m, implying QoQ CC growth between 1% and 3%. This is in-line with street's growth estimate, taking into account this quarter's muted performance. However, it expects to catch up with the industry by 4QFY18. WPRO expects to contain margins in a narrow band of 17.5-18%, which it achieved in FY17. It reflects the weakness in the Healthcare vertical due to uncertainty around the Affordable Care Act under the new US President, continued sluggishness in Communications and uniformly witnessed spending pressure in Retail.

### Wipro vs Nifty



**Geographies, Verticals performance – mixed bag:** In terms of verticals, BFSI grew 4.4% QoQ in cc terms with strong traction driven by Digital and Energy, Natural Resources and Utilities declined 6.1% QoQ. Revenue growth was healthy in Healthcare as it increased by 2.5% and Communications declined 0.7% QoQ on account of project closures. Among geographies, growth was led by Europe (+4.7%), while India & ME increased 1.4% QoQ. The Americas was down 0.7%, while APAC & EM decreased 0.5% QoQ. Business Process Services drove growth among services, up 4.7% QoQ. Modest revenue growth was led by large clients (top client was flat QoQ and top #2-5 clients grew 3.8% QoQ). Client buckets showed a surprising deterioration with # of clients added this quarter (net) was only 7.

### Capital efficiency & valuations

| Particulars       | FY18E | FY19E | FY20E |
|-------------------|-------|-------|-------|
| RoE (%)           | 16.7  | 17.4  | 16.6  |
| EPS (`)           | 19.4  | 20.6  | 22.4  |
| CEPS (`)          | 24.0  | 25.4  | 27.7  |
| P/E (x)           | 16.9  | 15.9  | 14.6  |
| P/BV (x)          | 3.0   | 2.6   | 2.3   |
| EV/EBITDA (x)     | 12.6  | 11.4  | 9.9   |
| Income growth (%) | (0.5) | 6.9   | 9.7   |
| EBITDA growth (%) | 2.3   | 6.8   | 10.3  |
| PAT growth (%)    | (0.3) | 10.0  | 8.9   |

**US\$15bn revenue ambition and 6 themes is still the way forward:** Management continues to believe in the 6 themes to achieve its ambitious target of US\$15bn revenues by 2020. These are (1) Digital technologies (2) Clients mining (3) Focus on growth markets (4) Non-linear revenues (5) Hyper Automation and (6) Leveraging partner ecosystem. In our view these six themes mimics the industry trend and are not differentiators from growth strategies of peers. As per management, revamped leadership, new organization structure and investment commitment would help company in achieving the aggressive target.

**Valuation & Outlook:** We expect Wipro to grow USD revenue at a CAGR of 6% and EPS to grow at a CAGR of 8.6% over FY17-19E. Valuations are at 16.9x FY18E and 15.9x FY19E EPS. We maintain our Hold rating on the stock, and would get constructive after looking at the sustainability of revenue growth and margin resilience Wipro's turnaround plan is gaining credence with improvement in growth from financial services However, pockets of weakness in communications, retail and healthcare verticals can be a drag.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in



## Exhibit 1: Quarterly details

| ` mn                             | 3QFY17        | 2QFY18        | 3QFY18        | QoQ (%)        | YoY (%)      | Comments   |
|----------------------------------|---------------|---------------|---------------|----------------|--------------|--|
| <b>Revenues (in US\$ mn)</b>     | <b>1,903</b>  | <b>2,014</b>  | <b>2,013</b>  | <b>(0.0)</b>   | <b>5.8</b>   | <b>Revenue grew up 0.9% in cc terms.</b>   |
| Revenues                         | 136,878       | 134,234       | 136,690       | 1.8            | (0.1)        |  |
| - Operating costs                | 109,000       | 106,446       | 108,586       | 2.0            | (0.4)        |  |
| <b>EBITDA</b>                    | <b>27,878</b> | <b>27,788</b> | <b>28,104</b> | <b>1.1</b>     | <b>0.8</b>   |  |
| <b>EBITDA margin (%)</b>         | <b>20.4</b>   | <b>20.7</b>   | <b>20.6</b>   | <b>(14)bps</b> | <b>19bps</b> | <b>IT Services EBIT margin was 17.2% (-10bps QoQ)</b>  |
| - Depreciation                   | 5,412         | 5,200         | 5,279         | 1.5            | (2.5)        |  |
| + Other income, net (incl forex) | 5,120         | 5,728         | 5,064         | (11.6)         | (1.1)        |  |
| <b>PBT</b>                       | <b>27,586</b> | <b>28,316</b> | <b>27,889</b> | <b>(1.5)</b>   | <b>1.1</b>   |  |
| - Taxes                          | 6,440         | 6,426         | 5,355         | (16.7)         | (16.8)       |  |
| Effective tax rate (%)           | 23.3          | 22.7          | 19.2          | (349)bps       | (414)bps     | Effective tax rate for FY18 to be between 22-23%   |
| <b>PAT</b>                       | <b>21,146</b> | <b>21,890</b> | <b>22,534</b> | <b>2.9</b>     | <b>6.6</b>   |  |
| Minority interest                | 52            | (5)           | (12)          | NA             | NA           |  |
| <b>Reported profits</b>          | <b>21,094</b> | <b>21,895</b> | <b>22,546</b> | <b>3.0</b>     | <b>6.9</b>   | <b>WPRO took a provision of Rs3,175mn on account of one of its client which filed for bankruptcy</b> |

Source: Company

## Exhibit 2: Change in estimates

| ` mn              | FY18E   |         |       | FY19E   |         |      |
|-------------------|---------|---------|-------|---------|---------|------|
|                   | Old     | New     | %Chg  | Old     | New     | %Chg |
| Revenue (US\$ mn) | 8,349   | 8,354   | 0.1   | 8,916   | 9,009   | 1.0  |
| Revenue           | 545,753 | 547,623 | 0.3   | 579,540 | 585,553 | 1.0  |
| EBITDA margin (%) | 20.3    | 20.4    | 10bps | 20.2    | 20.4    | 5bps |
| EPS (`)           | 17.9    | 19.4    | 8.4   | 19.0    | 20.6    | 8.4  |

Source: Trust Research

**Geography wise Revenues:** Among geographies, growth was led by Europe (+4.7%), while India & ME increased 1.4% QoQ. The Americas was down 0.7%, while APAC & EM decreased 0.5% QoQ.

## Exhibit 3: Geographical wise Performance

| Geographical mix      | Q3FY16       | Q4FY16       | Q1FY17       | Q2FY17       | Q3FY17       | Q4FY17       | Q1FY18       | Q2FY18       | Q3FY18       |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Americas              | 52.8         | 52.5         | 53.5         | 54.8         | 55.5         | 54.9         | 54.5         | 53.6         | 53.1         |
| Europe                | 24.8         | 25.6         | 25.4         | 24.0         | 23.6         | 24.4         | 24.2         | 25.1         | 25.9         |
| India & ME businesses | 11.0         | 11.0         | 10.4         | 10.4         | 10.0         | 9.9          | 10.4         | 9.9          | 10.0         |
| APAC & Other EM's     | 11.4         | 10.9         | 10.7         | 10.8         | 10.9         | 10.8         | 10.9         | 11.4         | 11.0         |
| <b>Total</b>          | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Source: Company

## Exhibit 4: Employee strength at WPRO

| Revenue Mix      | Q3FY16 | Q4FY16 | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| FPP Revenue      | 55.9   | 56.9   | 56.0   | 56.4   | 57.7   | 58.3   | 58.2   | 57.7   | 57.7   |
| Onsite revenue   | 53.8   | 54.2   | 54.4   | 53.9   | 53.5   | 52.8   | 53.6   | 53.2   | 53.5   |
| Offshore revenue | 46.2   | 45.8   | 45.6   | 46.1   | 46.5   | 47.2   | 46.4   | 46.8   | 46.5   |

Source: Company, Trust Research



**Vertical wise Performance:** In terms of verticals, BFSI grew 4.4% QoQ in cc terms with strong traction driven by Digital and Energy, Natural Resources and Utilities declined 6.1% QoQ. Revenue growth was healthy in Healthcare as it increased by 2.5% and Communications declined 0.7% QoQ on account of project closures.

**Exhibit 5: Vertical wise segmentation**

| Vertical Mix                         | Q4FY16       | Q1FY17       | Q2FY17       | Q3FY17       | Q4FY17       | Q1FY18       | Q2FY18       | Q3FY18       |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Finance solutions                    | 25.4         | 25.6         | 25.5         | 25.5         | 26.0         | 26.7         | 27.6         | 28.5         |
| Healthcare, life sciences & services | 13.3         | 15.3         | 16.0         | 16.0         | 15.4         | 14.8         | 13.7         | 14.0         |
| Energy & utilities                   | 14.0         | 13.2         | 12.9         | 13.0         | 13.1         | 13.4         | 13.5         | 12.4         |
| Manufacturing & Technology           | 23.2         | 22.5         | 22.4         | 22.3         | 22.8         | 22.5         | 22.8         | 22.7         |
| Consumer                             | 16.4         | 15.8         | 15.7         | 15.8         | 15.8         | 15.8         | 15.9         | 16.0         |
| Communications                       | 7.7          | 7.6          | 7.5          | 7.4          | 6.9          | 6.8          | 6.5          | 6.4          |
| <b>Total revenue</b>                 | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Source: Company

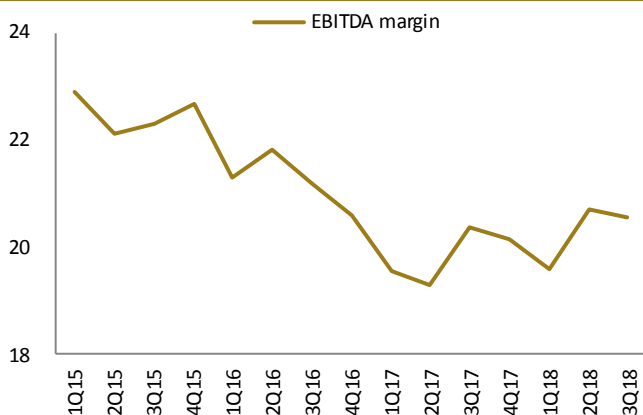
**Client details:** Modest revenue growth was led by large clients (top client was flat QoQ and top #2-5 clients grew 3.8% QoQ). Client buckets showed a surprising deterioration with # of clients added this quarter (net) was only 7.

**Exhibit 6: Client details**

|                                  | Q3FY16 | Q4FY16 | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| >\$100m                          | 9      | 9      | 9      | 8      | 9      | 9      | 9      | 9      | 9      |
| >\$75m                           | 17     | 18     | 19     | 19     | 17     | 18     | 18     | 16     | 17     |
| >\$50m                           | 32     | 33     | 33     | 33     | 33     | 34     | 36     | 39     | 41     |
| \$20m                            | 85     | 89     | 91     | 91     | 90     | 91     | 90     | 90     | 90     |
| \$10m                            | 154    | 160    | 170    | 171    | 170    | 163    | 163    | 170    | 167    |
| \$5m                             | 247    | 248    | 252    | 258    | 264    | 268    | 262    | 270    | 272    |
| \$3m                             | 325    | 331    | 336    | 341    | 349    | 354    | 357    | 370    | 364    |
| \$1m                             | 536    | 550    | 565    | 571    | 576    | 602    | 624    | 627    | 635    |
| Number of new customers          | 39     | 119    | 50     | 47     | 108    | 51     | 45     | 41     | 79     |
| Total number of active customers | 1,105  | 1,223  | 1,208  | 1,180  | 1,259  | 1,323  | 1,244  | 1,274  | 1,281  |
| Top customer contribution (%)    | 3.2    | 2.7    | 2.5    | 2.6    | 2.8    | 2.9    | 2.9    | 3.1    | 3.1    |
| Top 5 contributions (%)          | 11.5   | 11.0   | 10.3   | 10.1   | 10.0   | 10.0   | 10.3   | 11.0   | 11.3   |
| Top 10 contributions (%)         | 19.3   | 18.2   | 17.6   | 17.5   | 16.9   | 16.9   | 17.5   | 18.0   | 17.8   |

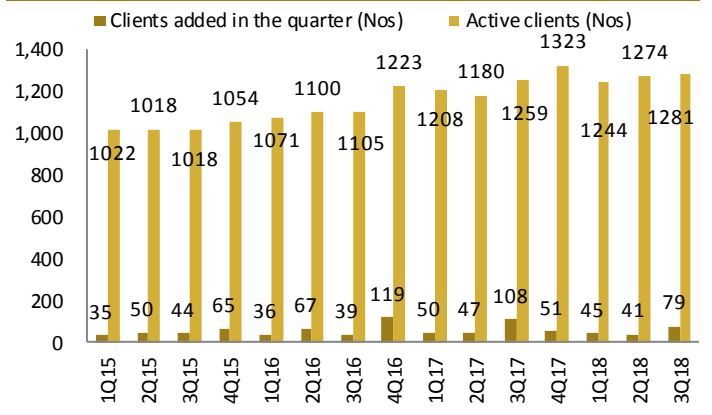
Source: Company

**Exhibit 7: EBITDA margin was as per expected**



Source: Company, Trust

**Exhibit 8: Client additions was weak this quarter**



Source: Company, Trust



## Financials

## Income Statement (` mn)

| Year End-March  | FY16           | FY17           | FY18E          | FY19E          | FY20E          |
|-----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenues</b> | <b>512,440</b> | <b>550,402</b> | <b>547,623</b> | <b>585,553</b> | <b>642,508</b> |
| Op. Expenses    | 403,829        | 441,235        | 435,949        | 466,262        | 510,972        |
| <b>EBITDA</b>   | <b>108,611</b> | <b>109,167</b> | <b>111,674</b> | <b>119,291</b> | <b>131,536</b> |
| Other Income    | 21,565         | 24,336         | 21,156         | 21,943         | 22,531         |
| Depreciation    | 14,965         | 23,107         | 20,758         | 21,798         | 24,048         |
| <b>EBIT</b>     | <b>115,211</b> | <b>110,396</b> | <b>112,071</b> | <b>119,436</b> | <b>130,019</b> |
| Interest        | -              | -              | -              | -              | -              |
| <b>PBT</b>      | <b>115,211</b> | <b>110,396</b> | <b>112,071</b> | <b>119,436</b> | <b>130,019</b> |
| Tax             | 25,305         | 25,213         | 24,166         | 26,276         | 28,604         |
| <b>PAT</b>      | <b>89,906</b>  | <b>85,183</b>  | <b>87,906</b>  | <b>93,160</b>  | <b>101,415</b> |
| Minority        | 492            | 248            | 29             | (48)           | (48)           |
| <b>Adj Pat</b>  | <b>89,414</b>  | <b>84,935</b>  | <b>87,877</b>  | <b>93,208</b>  | <b>101,463</b> |

## Key Parameters

| Year End-March             | FY16  | FY17  | FY18E | FY19E | FY20E |
|----------------------------|-------|-------|-------|-------|-------|
| <b>Per share (`)</b>       |       |       |       |       |       |
| EPS                        | 18.1  | 17.5  | 19.4  | 20.6  | 22.4  |
| CEPS                       | 21.1  | 22.2  | 24.0  | 25.4  | 27.7  |
| BVPS                       | 94.3  | 107.0 | 109.0 | 128.5 | 142.1 |
| DPS                        | 3.0   | 1.0   | 1.0   | 1.0   | 7.5   |
| Payout (%)                 | 19.4  | 6.7   | 6.0   | 5.7   | 39.1  |
| <b>Valuation (x)</b>       |       |       |       |       |       |
| P/E                        | 15.6  | 14.7  | 16.9  | 15.9  | 14.6  |
| P/BV                       | 3.0   | 2.4   | 3.0   | 2.6   | 2.3   |
| EV/EBITDA                  | 11.0  | 9.7   | 12.6  | 11.4  | 9.9   |
| Dividend Yield (%)         | 1.1   | 0.4   | 0.3   | 0.3   | 2.3   |
| <b>Return ratio (%)</b>    |       |       |       |       |       |
| EBIDTA Margin              | 21.2  | 19.8  | 20.4  | 20.4  | 20.5  |
| PAT Margin                 | 17.4  | 15.4  | 16.0  | 15.9  | 15.8  |
| ROAE                       | 20.5  | 17.2  | 16.7  | 17.4  | 16.6  |
| ROACE                      | 20.6  | 16.7  | 17.0  | 17.1  | 16.6  |
| <b>Leverage Ratios (x)</b> |       |       |       |       |       |
| Total D/E                  | 0.0   | 0.0   | 0.1   | 0.1   | 0.0   |
| Net Debt/Equity            | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) |
| Current ratio              | 2.0   | 1.2   | 1.4   | 1.7   | 1.9   |
| <b>Growth Ratios (%)</b>   |       |       |       |       |       |
| Income growth              | 8.8   | 7.4   | (0.5) | 6.9   | 9.7   |
| EBITDA growth              | 2.5   | 0.5   | 2.3   | 6.8   | 10.3  |
| PAT growth                 | 3.3   | (5.0) | (0.3) | 10.0  | 8.9   |
| <b>Turnover Ratios</b>     |       |       |       |       |       |
| Inventory Days             | 7.7   | 7.7   | 8.0   | 7.7   | 7.6   |
| Debtors Days               | 79.5  | 76.7  | 79.6  | 75.8  | 75.7  |
| Payable days               | 63.7  | 60.5  | 63.2  | 63.0  | 62.3  |

## Balance Sheet (` mn)

| Year End-March                | FY16           | FY17           | FY18E           | FY19E           | FY20E           |
|-------------------------------|----------------|----------------|-----------------|-----------------|-----------------|
| <b>Sources of Funds</b>       |                |                |                 |                 |                 |
| Equity Share Capital          | 4,941          | 4,861          | 9,046           | 9,046           | 9,046           |
| Reserves & Surplus            | 463,361        | 517,834        | 486,468         | 574,384         | 636,158         |
| <b>Net Worth</b>              | <b>468,302</b> | <b>522,695</b> | <b>495,513</b>  | <b>583,430</b>  | <b>645,204</b>  |
| Loan Funds                    | 17,361         | 19,611         | 31,767          | 31,767          | 31,767          |
| <b>Deferred Tax Liability</b> | <b>(3,800)</b> | <b>(7,103)</b> | <b>(10,396)</b> | <b>(10,396)</b> | <b>(10,396)</b> |
| <b>Capital Employed</b>       | <b>481,863</b> | <b>535,203</b> | <b>516,884</b>  | <b>604,801</b>  | <b>666,575</b>  |
| <b>Application of Funds</b>   |                |                |                 |                 |                 |
| Net Block                     | 64,952         | 69,794         | 72,638          | 75,840          | 76,792          |
| Goodwill                      | 101,991        | 101,864        | 101,864         | 101,864         | 101,864         |
| Investments                   | 148,785        | 307,952        | 258,632         | 263,632         | 268,632         |
| <b>Current Assets</b>         | <b>330,700</b> | <b>301,522</b> | <b>322,241</b>  | <b>388,060</b>  | <b>465,728</b>  |
| Debtors                       | 105,296        | 113,096        | 112,525         | 120,319         | 132,022         |
| Inventory                     | 11,232         | 12,064         | 12,003          | 12,834          | 14,082          |
| Cash                          | 99,049         | 52,710         | 74,685          | 123,358         | 175,279         |
| Others                        | 115,124        | 123,652        | 123,028         | 131,549         | 144,344         |
| <b>Current Liabilities</b>    | <b>164,565</b> | <b>245,929</b> | <b>238,490</b>  | <b>224,596</b>  | <b>246,442</b>  |
| Creditors                     | 56,180         | 60,565         | 62,054          | 66,184          | 73,608          |
| Provisions                    | 108,385        | 185,364        | 176,436         | 158,412         | 172,833         |
| Net Current Asset             | 166,135        | 55,593         | 83,750          | 163,464         | 219,286         |
| Misc Expenses                 | -              | -              | -               | -               | -               |
| <b>Total</b>                  | <b>481,863</b> | <b>535,203</b> | <b>516,884</b>  | <b>604,801</b>  | <b>666,575</b>  |

## Cash flow Statement

| Year End-March                  | FY16             | FY17             | FY18E           | FY19E           | FY20E           |
|---------------------------------|------------------|------------------|-----------------|-----------------|-----------------|
| <b>PBT</b>                      | <b>115,211</b>   | <b>110,396</b>   | <b>112,071</b>  | <b>119,436</b>  | <b>130,019</b>  |
| Depreciation                    | 14,110           | 19,804           | 17,465          | 21,798          | 24,048          |
| Others                          | (492)            | (248)            | (29)            | 48              | 48              |
| <b>CF before W.cap</b>          | <b>128,829</b>   | <b>129,952</b>   | <b>129,507</b>  | <b>141,282</b>  | <b>154,115</b>  |
| Inc/dec in W.cap                | (9,241)          | (64,203)         | 6,182           | 31,041          | 3,901           |
| <b>Op CF after W.cap</b>        | <b>138,070</b>   | <b>194,155</b>   | <b>123,325</b>  | <b>110,241</b>  | <b>150,214</b>  |
| Less Taxes                      | 25,305           | 25,213           | 24,166          | 26,276          | 28,604          |
| <b>Net CF From Operations</b>   | <b>112,765</b>   | <b>168,942</b>   | <b>99,159</b>   | <b>83,965</b>   | <b>121,610</b>  |
| Inc/(dec) in F.A + CWIP         | 25,711           | 27,949           | 23,602          | 25,000          | 25,000          |
| (Pur)/sale of Investments       | 120,859          | 159,040          | (49,320)        | 5,000           | 5,000           |
| <b>CF from Invst Activities</b> | <b>(146,570)</b> | <b>(186,989)</b> | <b>25,718</b>   | <b>(30,000)</b> | <b>(30,000)</b> |
| Loan Raised/ (repaid)           | 4,654            | 2,250            | 12,156          | -               | -               |
| Equity Raised                   | (13,401)         | (24,854)         | (106,591)       | 0               | (0)             |
| Dividend                        | 17,339           | 5,688            | 5,292           | 5,292           | 39,689          |
| <b>CF from Fin Activities</b>   | <b>(26,086)</b>  | <b>(28,292)</b>  | <b>(99,727)</b> | <b>(5,292)</b>  | <b>(39,689)</b> |
| <b>Net inc /(dec) in cash</b>   | <b>(59,891)</b>  | <b>(46,339)</b>  | <b>25,150</b>   | <b>48,673</b>   | <b>51,921</b>   |
| Op. bal of cash                 | 158,940          | 99,049           | 52,710          | 74,685          | 123,358         |
| <b>Cl. balance of cash</b>      | <b>99,049</b>    | <b>52,710</b>    | <b>77,860</b>   | <b>123,358</b>  | <b>175,279</b>  |



## Institutional Equity Team

| Names                              | Designation    | Sectors                      | Email ID's                     | Desk-Number      |
|------------------------------------|----------------|------------------------------|--------------------------------|------------------|
| Naren Shah                         | Head Of Equity |                              | naren.shah@trustgroup.in       | +91-22-4084-5074 |
| <b>Sales Trading &amp; Dealing</b> |                |                              |                                |                  |
| Rajesh Ashar                       | Sales Trader   |                              | rajesh.ashar@trustgroup.in     | +91-22-4224-5123 |
| Dealing Desk                       |                |                              | trustfin@bloomberg.net         | +91-22-4084-5089 |
| <b>Sales</b>                       |                |                              |                                |                  |
| Mayur Joshi                        | Sales          |                              | mayur.joshi@trustgroup.in      | +91-22-4424-5028 |
| <b>Research Team</b>               |                |                              |                                |                  |
| Binyam Taddese                     | Analyst        | Rates & Credit Research      | binyam.taddese@trustgroup.in   | +91-22-4224-5037 |
| Naushil Shah                       | Analyst        | Technology, Media & Telecom  | naushil.shah@trustgroup.in     | +91-22-4224-5125 |
| Tushar Chaudhari                   | Analyst        | Commodities, Auto & Mid-caps | tushar.chaudhari@trustgroup.in | +91-22-4224-5119 |
| Ritu Chaudhary                     | Associate      | FMCG & Consumer Durable      | ritu.chaudhary@trustgroup.in   | +91-22-4224-5183 |

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