



**SMIFS
LIMITED**
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INITIATING COVERAGE REPORT

November 23, 2020



TOGETHER, WE BUILD.

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Brief Overview

CMP (INR) (As on 20th Nov 2020)	2044
Target (INR)	3014
Upside(%)	47
Recommendation	Strong Buy

BSE Code	509675
NSE Code	HIL
Reuters Ticker	HYDI.BO
Bloomberg Ticker	HIL IN

Stock Scan

Market cap (INR Cr.)	1,531
Outstanding Shares (Cr.)	0.748
Face Value (INR)	10.00
Dividend Yield(%)	1.0
P/E (x)	8.6
P/B (x)	1.6
Debt/Equity (x)	0.52
Beta vs. Sensex	1.01
52 Week High/ Low (INR)	2064/497
Avg. Daily Volume (NSE)/1yr	29,787

Shareholding Pattern (%)

	Sep 2020	Jun 2020	Mar 2020
Promoters	40.83	40.91	40.91
Institutions	12.16	13.01	13.86
Non-Institution	47.01	46.08	45.23

Stock vs. Nifty (Relative Returns)



Source: NSE

HIL Ltd.: Renowned brand with multiple offerings

We initiate coverage on HIL Ltd. (HIL) with a Strong Buy rating. Founded in 1946 and having completed 70+ glorious years, HIL is the acknowledged leader in the Building Material space in India and has recently entered into the global wooden flooring market. It is a C.K. Birla Group company and its **Charminar** brand is an established market leader in roofing solutions. **Birla Aerocon** provides green building solutions that includes Dry Walling and Wet Walling products. **Birla HIL** manufactures pipes and putty while the brand **Parador** covers wooden flooring solutions. The key aspects which draw attention to HIL's business are:

- **Market leadership in Roofing business:** HIL is India's largest manufacturer of fibre cement roofing solutions and offers an exhaustive range of innovative and eco-friendly roofing solutions. HIL's flagship Charminar brand remains the most trusted and renowned brand in the roofing solution space. Current market share of HIL in the fibre cement category stands at c. 21%.
- **Huge opportunity in Parador:** As of now c. 50% of sales of Parador originate in Germany and Austria. 25% in Rest of Europe and balance 25% in Rest of the World. HIL is working on strategies to increase sales contribution from Rest of Europe, China and other Emerging Markets and the US. This would lead to operating leverage thereby enhancing the EBITDA margin to c. 10% from current level of c. 7-8%.
- **Non asbestos roofing could be the next big offering after Parador:** HIL believes Charminar Fortune will be a game changer and will take the Company to newer heights in the years to come.
- **Brand 'Aerocon' is synonymous with AAC blocks and panels in India:** HIL's 'Aerocon' brand is synonymous with Wet Walling and Dry Walling products in India, enjoying the highest market shares.
- **Superior expected growth from Polymer segment:** As of now HIL is a small player in the polymer segment, particularly in pipes and thus there is huge room for growth in this segment, once the brand is established.

We have valued the stock at 10x FY23E EPS to arrive at a **Target Price of Rs 3014**, which provides an upside of 47% based on the current market price. We thus recommend a **"Strong Buy"** rating on the stock.

Financial Performance at a glance (Consolidated)

Particulars (INR mln)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales from ops.	21688	25549	27446	29746	32516
Growth %	70%	18%	7%	8%	9%
EBITDA	2439	2372	3413	3523	4013
EBITDA Margin (%)	11.2%	9.3%	12.4%	11.8%	12.3%
Net Profit (Adjusted)	1142	1060	1677	1875	2256
Net Profit Margin (%)	5.3%	4.1%	6.1%	6.3%	6.9%
EPS (Adjusted)	152.6	141.5	224.1	250.5	301.4
BVPS	851.2	992.2	1257.0	1487.6	1768.9
P/B (x)	2.4	2.1	1.6	1.4	1.2
P/E (x)	13.4	14.4	9.1	8.2	6.8
ROE (%)	17.9%	14.3%	17.8%	16.8%	17.0%
ROCE(%)	13.5%	10.4%	17.7%	17.4%	18.8%
ROE (ex goodwill)	22.0%	17.2%	20.6%	19.0%	18.8%
ROCE(ex goodwill)	14.8%	11.4%	19.6%	19.0%	20.5%

FY19 figures include that of Parador from August 2018

Source: Company Data, SMIFS Research

Investment Rationales

HIL is India's largest manufacturer of fibre cement roofing solutions and its offerings include fibre cement sheets, colour coated steel and cement sheets and asbestos free cement sheets

HIL continues to maintain its market leadership position in fibre cement sheets category. HIL's deep brand presence coupled with market penetration is an asset for the Company.

Fibre cement sheets are comparatively cheaper, easy to install, strong and durable, ideal for warehouses, factories, low-cost housing and any roofing application.

■ Market leadership in Roofing business

HIL is India's largest manufacturer of fibre cement roofing solutions and offers an exhaustive range of innovative and eco-friendly roofing solutions, ranging from Fibre Cement Sheets to Colour Coated Steel and Cement Sheets and Next Gen Eco-friendly Sheets. ***HIL's flagship Charminar brand remains the most trusted and renowned brand in the roofing solution space. The cumulative capacity of fibre cement sheets per annum stands at 1,078,000 MT.***

HIL continues to maintain its market leadership position in this product category (fibre cement sheets) mainly backed by its loyal customers and retailers. ***Current market share of HIL stands at c. 21%.*** HIL's deep brand presence coupled with market penetration and dealer / sub-dealer connect activities in addition to certain brand enhancement schemes undertaken during the year, proved beneficial for the Company. ***Charminar and Charminar Fortune (non asbestos sheet) brands continue to enjoy the trust of the customers backed by the Company's enhanced customer centric approach, superior quality than competition, improved post sale customer service, deep routed supply chain network and widely spread depots and dealer network.*** This has helped the Company to manage the headwinds, if any, faced in the industry with ease. ***Overall, due to the turmoil in the economic environment on account of Covid-19, the roofing business de-grew by 13% YoY in volume terms in FY20. However, HIL's management is confident of improving and consolidating its position in the industry as the current challenge slowly disappears.***

Fibre Cement products are the most preferred solution for roofing in rural and semi-urban areas on account of their weather-proof and corrosion-resistant characteristics. These sheets are comparatively cheaper than other roofing solutions like steel and RCC, easy to-install, strong and durable, ideal for warehouses, factories, low-cost housing and any roofing application. Fibre cement boards and sheets are composite building and construction materials, mainly used in roofing and facade due to their strength and durability.

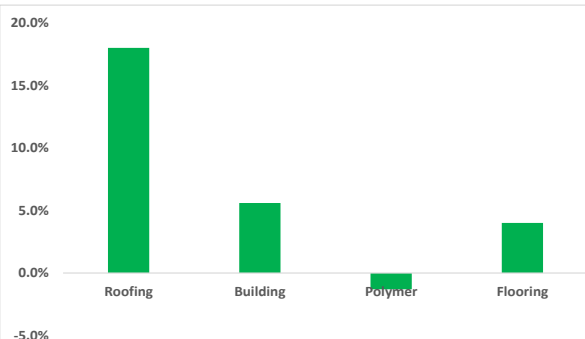
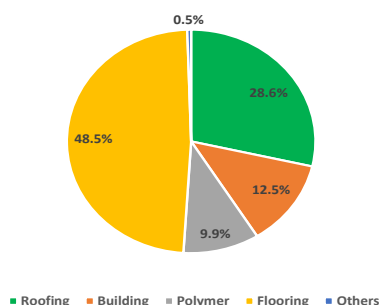
Investment Rationales

While there are health concerns with regard to the usage of asbestos, HIL undertakes the most prudent measures possible during the manufacturing of asbestos sheet. Besides, the asbestos used in the production process is chrysotile, which is the least harmful of all categories of asbestos.

While there are health concerns with regard to the usage of asbestos as it has been proven that the presence of asbestos in the lungs can lead to lung cancer, **HIL undertakes the most prudent measures possible to prevent any inhalation of asbestos by its workers during the production process – sealed packets of asbestos fibre are mixed with cement and fly ash during the production process and hence there is no risk of loose asbestos fibre floating in the air. Once the asbestos fibre is bound by cement during the production process there is absolutely no risk of inhalation of asbestos by any user/buyer during the period of usage of the asbestos sheet.** Besides, the asbestos that is used in the production process is chrysotile or white asbestos, which is the least harmful of all categories of asbestos.

It must be noted that there was an interruption in supply of asbestos from Brazil in the beginning of Q1FY20 due to an order passed by the Supreme Court of the country, however, supply has since been resumed, besides, there is no dearth of asbestos fibre from Russia and Kazakhstan. These countries will continue to supply asbestos to HIL and there will be no constraints in sale of asbestos products by HIL in the long run due to unavailability of asbestos.

Revenue Contribution & EBIT Margins for FY20



Diversified product lines

Currently HIL has very diversified product lines, which protects it from possible underperformance by any of its product lines. **While the contribution of Roofing solutions to revenue was 97% in FY15 it reduced progressively to 28.6% in FY20. Building solutions contributed to 12.5%, Polymer solutions contributed to 9.9% and Flooring solutions contributed to 48.5% of revenue in FY20.** The positive aspect of diversification was accentuated in Q1FY21 when the world was reeling under the pressures Covid-19. The Building solutions business underperformed with the segmental revenue dropping by 69%YoY, Polymer solutions followed suit with a drop of 23% YoY. However, Roofing solutions and Flooring solutions held the boat steady by recording YoY growths of -0.5% and 3.4% respectively.

The margin profile of HIL varies across its segments – **Roofing solutions reported an EBIT margin of 18% in FY20, Building solutions – 5.6%, Polymer solutions – (1.3%) and Flooring solutions – 4%.**

Investment Rationales

Parador is a Germany based full range supplier of wood based flooring solutions. Parador was acquired by HIL in August 2018 for Eur 82.8 million in an all cash deal. As of now, 50% of sales of Parador originate in Germany and Austria, 25% in Rest of Europe and balance 25% in Rest of the World.

Margin profile of Roofing solutions is expected to improve as fibre content is reduced, operating leverage comes into play and as Non Asbestos Non Autoclaved Roofing Sheets take a sizeable share of the total sales of Roofing solutions. Margin profile of Flooring solutions is also expected to improve in the medium term as economies of scale takes shape along with the positive effects of six sigma and lean manufacturing.

■ Huge opportunity in Parador

Parador Holdings GmbH, founded in 1977 is a Germany based, vertically integrated, full-range supplier which designs, manufactures and distributes a wide range of flooring solutions including resilient flooring, laminate and engineered wood flooring, wall and ceiling panels, skirtings and related accessories. Parador is the category leader in design and innovation with all products developed internally and produced with Made in Germany and Made in Austria quality. Parador has one factory each in Coesfeld, Germany and Gussing, Austria. ***The Company has long standing relationships with all major customers and exports more than 50% of its sales to over 80 countries.***

Parador was acquired by HIL in August 2018 for Eur 82.8 million in an all-cash deal funded through a combination of Euro debt, Rupee debt and internal accruals.

As of now, c. 50% of sales of Parador originate in Germany and Austria, 25% in Rest of Europe and balance 25% in Rest of the World. The cultural and financial integration post acquisition of Parador by HIL have gone very well and both organisations are working in sync with each other. ***The strategy in Germany has changed from distributors led sales to more of Do It Yourself (DIY) store sales and e-commerce. This has benefitted Parador immensely during the current period of Covid-19 as growth of sales from these direct channels helped Parador to report 3.4% and 24% YoY growth in sales in Q1FY21 and Q2FY21 respectively.*** Parador has entered China through a joint venture and 40+ outlets selling Parador products are active in China. Parador is also taking the initiatives to increase sales from neighbouring European countries like UK, France, Spain, Italy and the Nordic countries along with USA.

Investment Rationales

HIL has helped Parador to adopt lean six-sigma and lean manufacturing practices. These along with a focused approach has helped Parador to achieve better operating parameters.

HIL is supporting Parador in its endeavor to enter Asian markets. Parador aims to become a well-known luxury home interior flooring brand in India. It is eyeing for the next level of growth through JV's in China, Spain, UK and USA. These initiatives will bring in economies of scale , resulting in the increase in EBITDA margins. In the medium term, Parador aims to increase its EBITDA margin to c.10% from the current levels of c.7-8%.

HIL has helped Parador to adopt Lean Six-Sigma and Lean manufacturing practices in its manufacturing facilities in Germany and Austria. Focussed approach by HIL along with the Parador Management team coupled with the above techniques has helped Parador to achieve better operating parameters and improved profitability during the financial year 2020. ***With an international presence in 80+ countries, Parador will be able to improve the composition of its overseas sales which will further enhance its capacity utilisation and profitability.***

HIL India is supporting Parador in its endeavour to enter Asian markets. The idea behind starting the Parador business in Asia was to tap into the premium segment of the interior design market through Parador's strong product and design capabilities, made in Germany and Austria, utilising HIL's excellent pan-India relationships in the B2B segment. In the short span of less than a year, Parador India has set up a pan-India dealer network and has made inroads into the B2B residential projects segment and established its place with the renowned Architects and Interior Designers. ***With constant product innovation from Parador, Germany and technology & business-model-led innovation by the HIL team in India, Parador aims to become a well-known luxury home interior flooring brand in India in the years to come. With the alignment of culture and training programmes, Parador is eyeing for the next level of growth through JV's in China, Spain, UK and USA. The new product innovation is being pursued with lot of vigour in Parador and Parador has received Gold Award in European Product Design and Iconic Award for Innovative Architecture and Interiors.***

All the above initiatives will bring in economies of scale in Parador resulting in operating leverage play and the resulting increase in EBITDA margins. ***In the medium term, Parador aims to increase its EBITDA margin to c. 10% from the current levels of c. 7-8%.***

Investment Rationales

HIL believes Charminar Fortune will be a game changer in markets within and outside India. HIL is working on a new technology which would produce non asbestos sheet through non autoclaved technology and there would be a higher limit of around 450 MT on the daily production.

■ Non asbestos roofing could be the next big offering after Parador

HIL believes Charminar Fortune, an advanced research-based green roofing solution with excellent load bearing capacity, thermal resistance, sound proofing, fire resistance and a life of many decades will be a game changer in markets within and outside India and will take the Company to newer heights in the years to come.

As of now, autoclaved technology is used to produce Charminar Fortune Roofing Sheets, which restricts the production to 120 – 150 MT per day. HIL is working on a new technology which would produce non asbestos sheet through non autoclaved technology (F20 variant) and there would be a higher limit of around 450 MT on the daily production. Further, *minimal capex investment is required for production of non autoclaved technology non asbestos sheet and these sheets can be produced from any of the existing roofing solutions factories.*

The price of Charminar Fortune F20 variant would be c. 1.25 times that of asbestos sheet, however, it will be substantially cheaper than steel sheets which would cost around c. 2 times asbestos sheet. HIL's aim is to capture the steel sheets market, which is roughly twice as large as the asbestos sheet market in terms of volume.

The main demand drivers for cement roofing sheets are dependent on growing disposable income in the rural areas driven by factors like minimum Support Price (MSP), fair wage rate payment and good monsoon.

Investment Rationales

Building Solutions business consists of Wet Walling and Dry Walling products, which caters to the various requirements of building industries/commercial spaces. All products in the wet-walling category cohesively offer a complete range of solutions to the stakeholders in the Building Material industry. Dry-Walling category consists of “Panels”, and “Boards” under the brand name “Birla Aerocon”.

■ Brand ‘Aerocon’ is synonymous with AAC blocks and panels in India

Building Solutions business consists of Wet Walling and Dry Walling products, which caters to the various requirements of building industries/commercial spaces. ***HIL continued its position as a comprehensive solutions provider in the building materials category by offering all relevant products under one roof thereby retaining and enhancing its customer base.*** Having achieved peak capacity utilisation in FY20, the Company has focussed on process efficiency and lean management principles in these factories to optimize the cost further.

Wet-Walling category consists of “Fly Ash Blocks”, an eco-friendly building material, “Smart fix”, “Smart Plaster” and “Tile-Adhesive” under the brand name “Birla Aerocon”. All products cohesively offer a complete range of solutions to the stakeholders in the Building Material industry. ***Tile-Adhesive is a new addition to the range of products and will be a compliment to other products in this category.***

Fly Ash Blocks – an eco-friendly building material product, with unique combination of strength, low weight, cost-effectiveness and durability, has helped HIL to gain market share in the Building solutions segment and maintain its leadership position. During FY20, Fly Ash Blocks registered a de-growth of 4% YoY in volume terms over the previous year, due to challenges faced during the first quarter. ***Fly Ash Blocks with the various adhesives offered under the said brand continue to be the preferred choice among the builders and dealers.***

Dry-Walling category consists of “Panels”, and “Boards” under the brand name “Birla Aerocon”. Panels & Boards continue to be the preferred choice of the architects and designers. Technical solutions team of the Company continue to work closely with various architects and designers to provide them requisite support by creating awareness about the properties of these products and its advantages and they continue to promote these products. During FY20 the Panels and Boards division registered a decline of 6% YoY in volume terms compared to the previous year, however, HIL continues to maintain its preferred position in this category as well.

Investment Rationales

In summary, it can be stated that Birla Aerocon brand is synonymous with Wet Walling and Dry Walling products in India. In the Wet Walling segment, Birla Aerocon enjoys c.18-19% market share in its areas of presence. Selling prices of Birla Aerocon Wet Walling products are also at a premium compared to peers. In the Dry Walling segment Birla Aerocon enjoys c.62% market share and is the preferred choice of architects and designers, as noted earlier.

■ Superior expected growth from Polymer segment

This vertical consists of Pipes & Fittings and Wall Putty marketed under the brand name “Birla HIL”. The Brand “Birla HIL” gained momentum since its launch in FY19 and is becoming a preferred choice among its consumers.

Polymer segment consists of Pipes & Fittings and Wall Putty marketed under the brand name “Birla HIL”. The Brand “Birla HIL” gained momentum since its launch in FY19 and is becoming a preferred choice among its consumers.

The Company’s pipes facility at Golan (Gujarat) has started operating at a moderate capacity and primarily servicing its customers in the Western markets. *During FY20, HIL expanded its capacity at its Thimmapur facility, which would help to service Southern Markets more effectively. HIL is confident that with its rich heritage & Goodwill of HIL, coupled with superior quality of its plumbing solutions products, it will attract more customers thereby increasing its presence and market share.* The pipes business vertical witnessed a growth of 11% YoY during FY20.

During FY20, Wall Putty business continued its momentum by enhancing its presence in newer markets and territories. The Wall Putty business ended FY20 with a moderate growth of 4% YoY in volume terms as compared to previous year. *In order to service the growing demand across various regions and to improve the profitability, HIL has set up a manufacturing facility (1,08,000 MT) in Golan in the state of Gujarat in October 2020, which will further help to improve the business for this product.*

HIL Overview

Strong brand equity



- Fibre Cement Sheets
- Coloured Steel Sheets



- Dry Wall:**
- Solid Wall Panels
 - C- Boards
 - Flex-O-Boards
 - SmartBond
 - Designer Board

- Wet Wall:**
- AAC Blocks
 - Block Jointing Mortar

Tile Adhesive



- Pipes & Fittings:**
- UPVC Pipes and Fitting
 - CPVC Pipes and Fitting
 - SWR Pipes and Fitting

Wall Putty



- Next Gen Non-asbestos Corrugated Roofing Sheets



- Revolutionary High Temperature Insulation



- Engineered Wood Flooring
- Laminate Flooring
- Resilient Flooring
 - LVT
 - ModularOne
 - SPC
- Skirting, Wall & Ceiling Panel and Accessories

Source: Company Data

HIL's Agenda for Growth

- Established brands
- Committed dealership
- Momentum in margins through sustainable efficiencies



- Drive organic expansion
- Augment non-roofing portfolio
- Launch research based green solutions

- Develop adjacent complementarities
- Harness existing core strengths

Source: Company Data

Competition Analysis

Name	Product Profile	% Segment Sales (FY20)	Presence in Non Asbestos Roofing	Sales (FY20) (Rs mln)	Market Share (FY20)	Roofing Installed Capacity (FY20)	Roofing Volumes (FY20)	Consol EBITDA Margin (FY20)	Consol EBIT Margin (FY20)	Roofing EBIT Margin (FY20)
HIL	Roofing - Fibre and Non Fibre Cement Sheets, Cement Blocks and Panels, Flooring Solutions, Pipes and Putties.	Roofing - 29%. Building Solution - 13%. Polymer Solution - 10%, Flooring Solution - 49%.	Yes	Roofing - 7332. Building Solution - 3194. Polymer Solution - 2545. Flooring Solution - 12438.	Roofing - 19%. Dry Walling - 62%, Wet Walling - 18/19%.	1078000 MT	695000 MT (approx)	9.30%	5.50%	Roofing - 18%. Roofing & Building Solution Combined - 14.3%
Visaka Industries	Roofing - Fibre and Non Fibre Cement Sheets, Cement Boards and Panels, Textiles - Synthetic Yarns.	60% - Fibre Cement Sheets. 20% - Cement Boards & Panels. 20% - Synthetic Yarns.	Yes	Roofing - 6260. Cement Boards & Panels - 2086. Synthetic Yarn - 2158.	Roofing - 18%. Boards and Panels - 32%	Total installed capacity for Roofing and Cement Boards & Panels - 981750 MT.	773542 MT (For whole of Building Products)	11%	7.10%	8.5% (For the whole of Building Products segment)
Ramco Industries	Roofing - Fibre Cement Sheets (Ramco Powerroof), New Age Roofing - Asbestos free roofing sheets made with polypropylene fibres (Ramco Greencor), Cement Boards (HiCem), Dry Walls & Ceiling materials(Hilux), Textiles, Windmills, Others	87% from Building Products which includes Asbestos and Non Asbestos Roofing Sheets and Fibre Cement Boards. 13% from Others.	Yes	Building Products - 8482. Others - 1259.	Roofing - 15%.	NA	544414 MT	10.60%	7.40%	8% (For the whole of Building Products segment, which includes cement boards).
Everest Industries	Roofing - Fibre Cement Sheets, Coloured Cement Roofing Sheets, Non Asbestos (Hi Tech) Roofing Sheets, Durasteel metal roofing sheets. Cement Boards & Panels. Solar Roofing. Pre Engineered Buildings.	Building Products (fibre cement roofing sheets, fibre cement boards, solid wall panels) -66% (boards for flooring are also manufactured). Pre Engineered Steel Buildings -34%	Yes	Building Products - 8429.6. Steel Buildings - 4424.5	18% - Building Products	Total installed capacity for Building Products - 950000 MT.	748000 MT (For whole of Building Products)	4%	2.16%	6% (For the whole of Building Products segment).

Source: Company Data

Market Sizes of Segments

Segments	Current Market Size	CAGR (last 5 years)	Location
Fibre Cement Roofing	3.7 mln MT	0%	India
Buildings - Blocks	Data not available	Data not available	India
Buildings - Panels	Rs 150 cr	10-12%	India
Buildings - Boards	Rs 700/800 cr	10-12%	India
Plumbing Pipes	Rs 13000 cr	12-13%	India
Putties	Rs 4000/4500 cr	12-13%	India
Flooring - all materials	USD 369 bln	6%	World

Source: Company Data

Industry Overview

Fibre Cement products are the most preferred solution for roofing on account of their weather-proof and corrosion-resistant characteristics in rural and semi-urban areas. The demand for the product is mainly driven by rural economy, led by the method of housing construction, its affordability and durability. The main demand drivers for cement roofing sheets are dependent on growing disposable income in the rural areas driven by factors like minimum Support Price (MSP), fair wage rate payment and good monsoon.

■ Roofing Industry: Fibre Cement Sheet market

Fibre Cement products are the most preferred solution for roofing on account of their weather-proof and corrosion-resistant characteristics in rural and semi-urban areas. ***These sheets are comparatively cheaper than other roofing solutions, easy to-install, strong and durable, ideal for warehouses, factories, low-cost housing and any roofing application.*** Fibre cement boards and sheets are composite building and construction materials, mainly used in roofing and facade due to their strength and durability.

These sheets are used across India for roofing of houses, cattle sheds, poultry farms, factories and warehouses. This market is worth Rs 3900 crores with top six players accounting for 75% - 80% of the size. The demand for the product is mainly driven by rural economy, led by the method of housing construction, its affordability and durability. The main demand drivers for cement roofing sheets are dependent on growing disposable income in the rural areas driven by factors like minimum Support Price (MSP), fair wage rate payment and good monsoon. The Government's 'Housing for All' initiative aims to provide affordable houses in rural and urban areas by 2022. This is also likely to increase demand for different types of roofing sheets including, coloured roofing sheets and it is expected to grow in the coming years.

While the fibre cement sheets continue to face stiff competition from steel sheets, utilization of alternative products such as metal cladding sheets, ***it still remains competitive and has an edge on its durability compared to other products.*** The other factors that affect the demand and supply are improved disposable income in the hands of rural population, reduction in tax rates, increased farm productivity, nuclearization of families and most importantly Government focus on housing.

The industry witnessed a subdued demand in FY 2019-20 due to various external factors. ***The industry experienced slow growth primarily due to liquidity constraints in the rural economy, staggered elections leading to crunch in the market demand, availability of labour, and increase in the prices of raw materials.*** Additionally, other factors such as sand mining constraints and spurts of social disruptions further subdued the demand.

Industry Overview

NABARD has granted Rs 1.46 lakh crores to the rural banking system during the current fiscal-FY (2019-20). Other Government measures to boost India's rural economy and improve rural livelihoods include development of cluster-based specialised farming, promotion of organic farming, support for farmers' organisations, extension of farmer credit to fisheries and animal husbandry farmers.

However, to address the liquidity constraints, ***NABARD has granted Rs 1.46 lakh crores to the rural banking system during the current fiscal-FY (2019-20) with the aim to help them get their resources effectively deployed for handling the credit needs of rural people, including farmers.*** Other Government measures to boost India's rural economy and improve rural livelihoods include development of cluster-based specialised farming, promotion of organic farming, support for farmers' organisations, extension of farmer credit to fisheries and animal husbandry farmers are expected to help towards revival of roofing sheets demand in the coming years.

Additionally, due to the recent outbreak of Covid-19, the Government imposed a country wide lockdown to curtail the spread which further deaccelerated the growing economy. To address the situation, the ***Government further extended additional refinance support of Rs 30,000 crores to the National Bank for Agriculture and Rural Development (NABARD). This will be used to push liquidity through regional rural banks (RRBs) and co-operative institutions, and expand the ongoing drive to enlist 25 million new farmers for concessional credit as part of its Covid-19 relief package.*** The working class migrants returning to villages is also expected to advance farming and enhance their cash flows in the coming years. While the impact of Covid-19 outbreak continues to pose a big threat on the performance of this segment, the Companies who have significant penetrations and presence in rural markets are expected to have lesser impact.

Industry Overview

■ Real Estate Industry:

Real Estate and Infrastructure continue to play key role in building the Economy. ***The Indian real estate sector faced multiple headwinds in CY 2019. Dwindling consumption, NBFC crunch and slowdown in the economy overshadowed all possibilities for growth of the real estate sector*** – which lead to the softening of India's GDP. Liquidity crisis further aggravated the depression in this segment.

The Coronavirus outbreak has infected people worldwide and has also affected the real estate sector deeply. The outlook of the real estate sector for FY21 is weak. Developers are likely to face challenges in the near to medium term to meet interest expenses due to the weak demand and liquidity issues. However, with record low home loan rates there has been some buying interest among potential customers.

The Coronavirus outbreak, has infected people worldwide. Simultaneously, it has disrupted industries, trade and business cycles, thus halting global economic activity significantly. Real estate sector in India, which was already struggling to re-emerge from the past turbulence of structural changes, policy reforms, and the liquidity crisis, witnessed another major fallout in the initial period of Covid-19. Country-wide lockdown halted all activities—Project sites were shut, site visits stopped, labour and material availability became a big hindrance and construction activity came to a grinding halt, eventually impacting real estate sales, leading to further increase in unsold inventory. However, the situation has improved post removal of lockdown and with record low home loan rates, creating interest among some buyers. Therefore, the developers have restarted work to some extent on new project launches.

As per India Ratings and Research, outlook of the real estate sector for FY21 is weak, as the ongoing liquidity crisis and weak consumer sentiment continue to hurt housing demand in major cities. This sector is still to evaluate the benefits of the Government packages proposed to combat the Covid-19 and its impact on the business.

Industry Overview

The flooring industry is driven by rising demand for aesthetic interior materials in building structures. Further, the strong growth in construction market especially in the Emerging Markets and Developing Economies has been supporting the growth of the segment.

■ Flooring Industry:

The global flooring market is valued at US\$ 369.26 billion in 2019 and is anticipated to grow at a CAGR of 5.9% from 2020 to 2027. The industry has been driven by rising demand for aesthetic interior materials in building structures. Further, the strong growth in construction market especially in the Emerging Markets and Developing Economies has been supporting the growth of the segment. As the flooring material is available in several types along with the provision for customization of designs, dimensions, and colours, it has provided end users with a wide range of options.

Amidst several challenges faced by Germany, the German Government has taken progressive stand to continue the business in pockets in unaffected areas which has helped the organisations to continue delivery of their products through e-commerce, DIY models etc.

Key Risks

- **Disruption in the supply of asbestos**— The roofing segment is very much dependent on the availability of asbestos. Availability of asbestos in the right quantity and price is the key determinant of segment profitability. Recently, there was a ban on asbestos mining in Brazil for a brief period because of which HIL had to source asbestos from Kazakhstan along with sourcing from existing suppliers in Russia. Russia, Brazil and Kazakhstan are three key suppliers of asbestos fibre. Any issues in these three countries can affect the supply. Besides, the suppliers in these countries enjoy a superior bargaining power due to availability of asbestos for export primarily in these three countries.
- **Seasonality of operations**— Roofing and Flooring operations of HIL are seasonal in nature with Q1 and Q4 of a financial year being the two key quarters for sales. Roofing sales in these two quarters are driven by the money in hand of farmers after harvests. So, if harvesting is poor in these two seasons, demand for roofing sheets gets affected. For the Flooring industry in Europe, demand gets affected in Q2 and Q3 of a financial year because of summer and Christmas holidays. So, if there is an extended summer or short summer demand is bound to get affected.
- **Dependency on the Real Estate sector**— The Building and Polymer segments of HIL are very much dependent on the Real Estate sector, which of course is cyclical in nature. Thus, there is a direct correlation between the positive outlook of Real Estate sector and demand for walling, plumbing and putty products.
- **Ban on the usage of asbestos**— While HIL uses Chrysotile or white asbestos, which is the least harmful of all categories of asbestos, the possibility of a ban on the usage of asbestos by the Government of India, in line with many European countries, in the near future cannot be ruled out. HIL is preparing itself by introducing non asbestos based cement sheets within the Charminar Fortune brand, however, any sudden ban on the usage of asbestos sheet is bound to affect the revenue of HIL.
- **Risk with regard to our estimates**— We have assumed consolidated revenue growth rates of 7.1%, 8.3%, and 9.3% YoY for FY21E, FY22E and FY23E respectively. If in case our assumptions do not converge in actual terms, our estimated target price may not be reached.

SWOT Analysis

Strengths

- Strong brand position.
- Resilient business model with well-diversified portfolio.
- High market shares in most business segments.

Weaknesses

- Cyclical nature of businesses.

Opportunities

- Expansion of Parador in Asian and Emerging markets along with European markets.
- Margin expansion opportunities with economies of scale in Parador.
- Non asbestos, non autoclaved roofing sheets.
- Incremental market share gains in the Polymer segment

Threats

- Potential ban on the usage of asbestos.
- Huge bargaining power of suppliers of asbestos based in Russia and Kazakhstan.

Company Overview

HIL is a seven decades old company with major brands such as Charminar (Roofing), Charminar Fortune (Roofing), Birla Aerocon (Building), Parador (Flooring) and Birla HIL (Polymer). The Company has constantly innovated its product offerings, leveraged technological advancements and accommodated diverse customer needs to continuously reinvent itself and adapt to the challenges of a dynamic business environment.

HIL is a one-stop solution for building materials and the Company positions itself as a key player with **major brands such as Charminar (Roofing), Charminar Fortune (Roofing), Birla Aerocon (Building), Parador (Flooring) and Birla HIL (Polymer).**

With a rich legacy of over 7 decades, HIL has successfully cemented its position in the building material industry. The Company has constantly innovated its product offerings, leveraged technological advancements and accommodated diverse customer needs to continuously reinvent itself and adapt to the challenges of a dynamic business environment.

The Roofing solutions of the Company comprise of **fibre cement sheets, coloured steel sheets, and non asbestos cement based corrugated sheets**. The Building solutions comprise of **AAC fly ash blocks, panels, fibre cement boards, smart boards and designer boards**. The Polymer solutions comprise of **CPVC and UPVC pipes and fittings and wall putty**. The Flooring solution is branded as Parador and revolves around **engineered wood flooring, laminate flooring, and vinyl flooring**. There is also a **small wind power business**—any excess over captive consumption is sold to DISCOMs in Tamilnadu and Gujarat.

Parador was acquired by HIL in August 2018 for Eur 82.8 million in an all-cash deal funded through a combination of Euro debt (37.6 mln), Rupee debt (2730 mln) and internal accruals (Rs 1600 mln). HIL sold its Thermal Insulation business (HYSIL) for a consideration of Rs 776.4 mln to France based Imerys Group in Q2FY21.

EBIT Margins Across All Categories

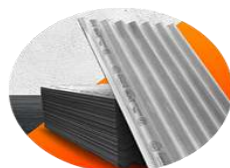
Categories	EBIT Margins FY19	EBIT Margins FY20
Roofing	21.8%	18.0%
Building	5.2%	5.6%
Polymer	1.2%	-1.3%
Flooring	1.6%	4.0%

Source: Company Data

Revenues for Roofing, Building, Polymer, Flooring, and Others segments were Rs 8,739 mln (40.2%), Rs 3,242 mln (14.9%), Rs 2,330 mln (10.7%), Rs 7,261 mln (33.4%), and Rs 148 mln (0.7%) respectively for FY19. For FY20 the respective figures were Rs 7,332 mln (28.6%), Rs 3,194 mln (12.5%), Rs 2,545 mln (9.9%), Rs 12,438 mln (48.5%), and Rs 126 mln (0.5%).

EBIT for Roofing, Building, Polymer, Flooring, and Others segments were Rs 1,904 mln, Rs 168 mln, Rs 28 mln, Rs 115 mln, and Rs 67 mln respectively for FY19. For FY20 the respective figures were Rs 1,323 mln, Rs 179 mln, Rs (33) mln, Rs 504 mln, and Rs 81 mln.

Products Portfolio



ROOFING SOLUTIONS

Products

- Fiber Cement Sheets
- Next Gen non-asbestos corrugated roofing sheets
- Coloured steel sheets
- Charminar Coloured Cement Roofing Sheets

1078000

Cumulative capacity of Fiber Cement Sheets per annum (in MT)

Brands



India's largest manufacturer of fiber cement roofing solutions



The Next Gen eco-friendly and non-asbestos roofing solution



FLOORING SOLUTIONS

Products

- Engineered Wood Flooring
- Laminate Flooring
- Resilient Floor Covering / Vinyl Flooring
- Skirting & Accessories

15

Cumulative capacity per annum (in M SQM)

Brands

PARADOR

A leading international brand for wooden flooring



POLYMER SOLUTIONS

Products

- CPVC & UPVC Pipes & Fittings
- SWR Pipes and Fittings
- Column Pipes
- Pressure Pipes
- Wall Putty

29449

Cumulative Capacity of Pipes & Fittings per annum (in MT)

165000

Cumulative capacity of wall putty per annum (in MT)

Brands



Birla HIL is a major player in the Polymer segment for Pipes and WallPutty.



BUILDING SOLUTIONS

Products

- Block Jointing Mortar
- Cement Sandwich Panels
- Fly Ash (AAC) Blocks
- Fiber Cement Boards
- Designer Boards
- Tile Adhesive
- Ready Mix Plaster

873000

Capacity of Fly Ash (AAC) Blocks per annum (in CUM)

84000

Cumulative capacity of Panels per annum (in MT)

Brands

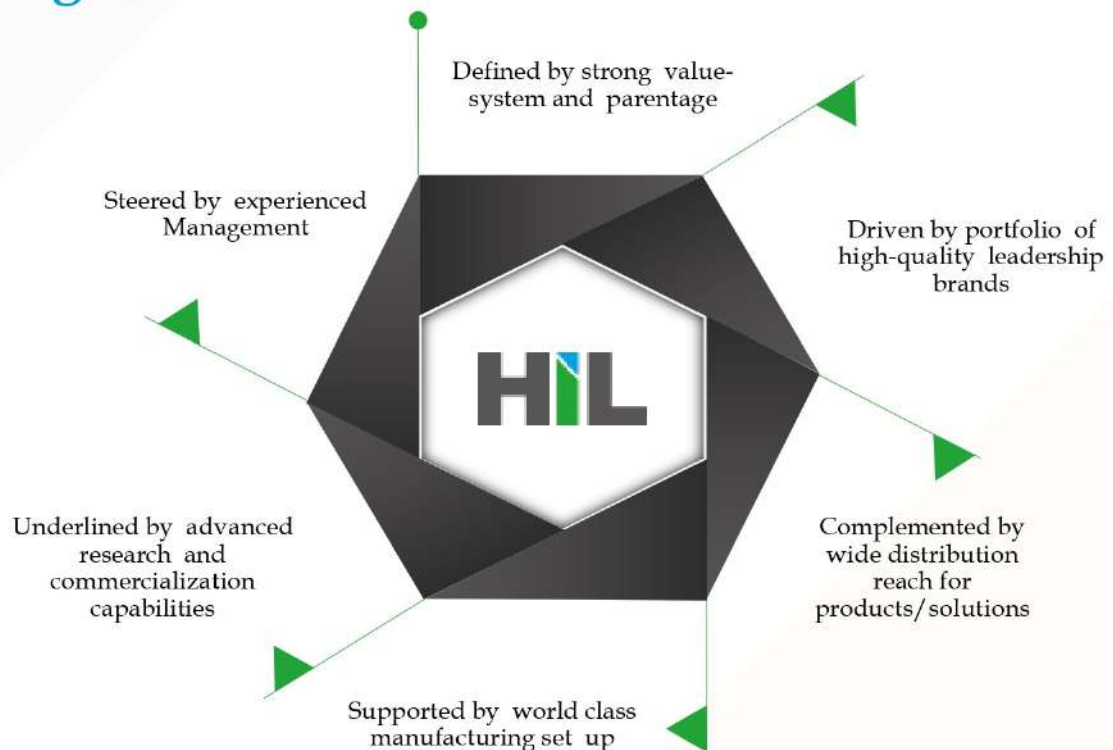


BUILDING SOLUTIONS

India's leading Building Solutions brand comprising of dry and wet walling solutions

Source: Company Data

HIL's Strengths



Source: Company Data

Distribution Spread

Key competitive advantage

- 21 Manufacturing facilities
- 38 Sales depots
- 7 sales offices
- 2,500 loyal stockiest/distributors
- 6,500 sub-dealers
- Deeper market penetration – Rural
- Urban real estate markets & green building products
- Low cost, high strength & best quality roofing products

Building the nation through high quality, cost effective products



Source: Company Data

Key Management Team

■ **Mr. C.K. Birla, Chairman.**

Mr. Chandra Kant Birla serves as the Non Executive Chairman of HIL Ltd. He is also at the helm of affairs of various other companies of the C.K. Birla Group. He is one of the eminent industrialists of India with rich business experience.

■ **Mr. Dhirup Roy Choudhary, Managing Director and CEO.**

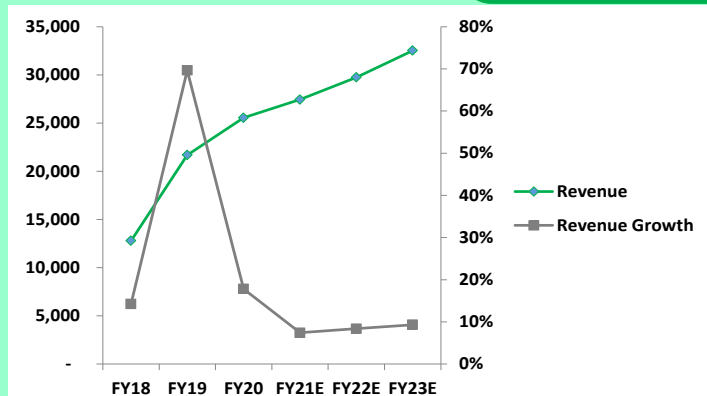
Mr. Dhirup Roy Choudhary is the Managing Director and CEO of HIL Ltd. since 2017. Mr. Choudhary has extensive experience in managing businesses with international organisations. He started his career with Asea Brown Boveri (ABB) and became famous after turning around the loss-making Nashik unit of ABB at a very young age. He later joined Crompton Greaves India where he established his reputation as a turnaround expert within a few months after taking over a plant which had been making losses for ten years. He then moved on to Bagri Group and Metrod Holding, where he became a non-independent Executive Committee Member at the Promoter group level and President—Member of the Board before joining HIL in 2017. He is a qualified Electrical and Electronics Engineer from Birla Institute of Technology and has also done a senior management course from Indian Institute of Management, Ahmedabad.

■ **Mr. K. R. Veerappan, CFO.**

Mr. K.R. Veerappan has been the CFO of HIL Ltd. since 2014. He is a member of The Institute of Chartered Accountants of India and is a B.Com (Hons.) graduate from St. Xavier's College, Kolkata.

Key Performance Indicators

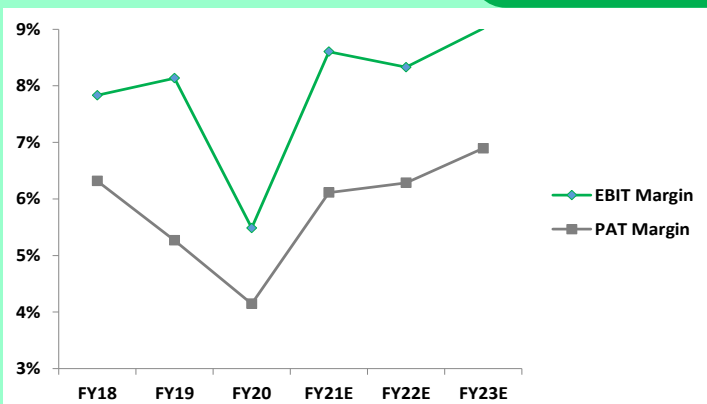
Revenue & Revenue Growth



Source: Company Data, SMIFS Research

Revenue from operations is expected to grow at a CAGR of 8% between FY20 and FY23E.

Profit Margins



Source: Company Data, SMIFS Research

EBIT Margin is expected to improve from 5.5% in FY20 to 9% in FY23E. PAT Margin is expected to improve from 4.1% in FY20 to 6.9% in FY23E.

RoE and RoCE

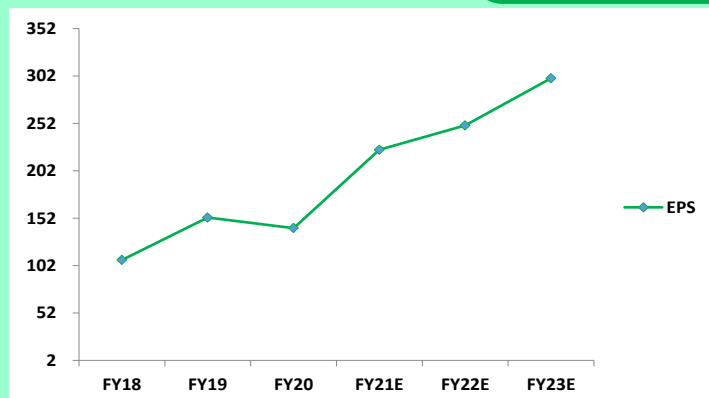


Source: Company Data, SMIFS Research

RoE changes from 14.3% in FY20 to 17% in FY23E while RoCE changes from 10.4% in FY20 to 18.8% in FY23E.

Key Performance Indicators

EPS Growth



Source: Company Data, SMIFS Research

EPS is expected to grow at a CAGR of 29% between FY20 and FY23E.

Debt/Equity Ratio



Source: Company Data, SMIFS Research

Our assumptions indicate a steady decrease in Debt/Equity ratio from 1.02 in FY20 to 0.24 in FY23E.

Free Cash Flow Generation



Source: Company Data, SMIFS Research

Due to strong generation of Cash Flow from Operations between FY21E and FY23E, Free Cash Flow should improve significantly to Rs 1,441 mln, Rs 1,308 mln and Rs 1,573 mln in FY21E, FY22E and FY23E respectively from Rs 194 mln in FY20.

Outlook and Valuation

HIL is a 70+ years old company, which has migrated successfully from being a Roofing solutions company to a more comprehensive Building Products solutions company in recent times. It is the **undisputed leader in the Roofing and Building (Walling products) segments, selling products under the brand Charminar/ Charminar Fortune and Aerocon respectively.** The acquisition of **Parador in August 2018 has put HIL on the map of the Global Wooden Flooring market.** These combined with HIL's presence in Pipes and Putties segments (Polymer) in India ensures a bouquet of offering from HIL, which in a way insulates the Company against underperformance by one or more segments—**HIL's revenue contribution from Roofing segment was 97% in FY15, which dropped to 28.6% in FY20. Building segment contributed to 12.5%, Polymer– 9.9% and Flooring– 48.5% in FY20.** The market shares of HIL in Roofing and Building segments are enviable—HIL currently enjoys a market share of c. 21% in fibre cement sheets. For Wet Walling products, the market share is c.19% while for Dry Walling products, the market share is c. 62%. **In fact the brand 'Aerocon' is synonymous with Wet Walling and Dry Walling products just like 'Xerox' is for photo copies.**

Parador has enabled HIL to diversify its geographical exposure and the initiatives taken by the Management to bolster sales in Germany and Austria through e-commerce and DIY routes are commendable as are the initiatives with regard to the formation/ potential formation of joint ventures in China and other countries. Lean manufacturing practices along with adoption of Six Sigma has had an impact on the EBITDA margin of Parador and this is expected to improve further as the Company strengthens its sales network in European countries other than Germany and Austria and the US, with the absorption of fixed costs being spread across more number of units.

The non asbestos, non autoclaved version (F20) of Charminar Fortune is expected to be a game changer in the years to come with respect to the Roofing market in India. The Company has started to seed this product with known customers and the success of this product would protect the Company against any potential ban of asbestos based roofing sheets. F20's price would be about 25% higher than the price of asbestos sheet, however, the price would still be low compared to steel and RCC sheets and thus customers would get an environment friendly product at a cheap price compared to competitive products.

Since the market share of HIL is low in the pipes and putties segment, there is a huge room available for market share gains, once the brand is established.

Steady free cash flow generation and very reasonable levels of debt across the projected years ensures the quality of the Balance Sheet. We have valued the stock at 10x FY23E EPS to arrive at a **Target Price of Rs 3,014** and recommend a **"Strong Buy"** rating on the stock.

Peer Comparison

Peers	Sales (Rs mln)		EBITDA (Rs mln)		EBITDA Margin		Market Cap (Rs mln)	P/E		P/CF		P/B		RoE(%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HIL	27446	29746	3413	3523	12.4%	11.8%	13260	9.1	8.2	6.2	5.7	1.6	1.4	17.8%	16.8%
Everest Industries	9040	13940	410	1120	4.5%	8.0%	4139	33.1	5.8	11.0	4.3	0.9	0.8	2.7%	13.4%
Ramco Industries	8968	10281	1019	1203	11.4%	11.7%	18425	11.0	9.9	16.4	13.3	0.6	0.5	2.3%	2.8%
Visaka Industries	9690	11673	1423	1627	14.7%	13.9%	5755	8.4	7.1	5.1	4.5	1.0	0.9	12.5%	13.6%

Source: SMIFS Research, Bloomberg.

Financial Details
Income Statement Extract (Consolidated)

Particulars (INR mln.)	FY19	FY20	FY21E	FY22E	FY23E
Revenue from operations	21688	25549	27446	29746	32516
Revenue Growth	70%	18%	7%	8%	9%
Cost of goods sold	10919	13049	14013	14932	16323
Employee benefits expenses	2477	3580	4059	4313	4552
Other expenses	5851	6549	5961	6977	7628
EBITDA	2439	2372	3413	3523	4013
EBITDA Margin	11.2%	9.3%	12.4%	11.8%	12.3%
EBITDA Growth	66%	-3%	44%	3%	14%
Depreciation & Amortisation	675	971	1052	1046	1081
EBIT	1764	1402	2361	2477	2932
Interest Cost	252	385	311	168	118
Other Income	267	246	260	280	300
PBT (Adjusted)	1777	1269	2325	2605	3133
PAT (Adjusted)	1142	1060	1677	1875	2256
PAT Margin	5.3%	4.1%	6.1%	6.3%	6.9%
PAT Growth (Adjusted)	41%	-7%	58%	12%	20%

Balance Sheet (Consolidated)

Particulars (INR mln.)	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	75	75	75	75	75
Reserves & Surplus	6297	7352	9335	11061	13167
Networth	6372	7427	9410	11136	13242
Long term Borrowings	5191	4568	2443	1649	856
Other Non-Current Liabilities	1537	1497	1472	1485	1479
Short term Borrowings	813	1996	1896	1796	1496
Other Current Liabilities	5834	6056	6367	6258	6602
Total Equity & Liabilities	19747	21544	21587	22323	23675
Net Tangible Asset	9013	9336	9325	9676	9990
Other Non Current Assets	2663	2803	2836	2845	2852
Inventories	4941	5684	6104	6505	7110
Trade Receivables	1391	1184	1278	1385	1514
Cash and Cash Equivalents	642	862	553	376	646
Other Current assets	1097	1675	1490	1536	1563
Total Assets	19747	21544	21587	22323	23675

Source: Company Data, SMIFS Research

Financial Details
Cash Flow Statement Extract (Consolidated)

Particulars (INR mln.)	FY19	FY20	FY21E	FY22E	FY23E
PBT	1665	1356	2780	2605	3133
Depreciation & Amortisation	686	979	1052	1046	1081
Interest expense	252	385	311	168	118
(Increase)/Decrease in CA	(511)	(749)	(566)	(575)	(774)
Increase/(Decrease) in CL	262	(9)	232	235	338
Taxes Paid	(715)	(446)	(648)	(729)	(877)
Cash Flow from Operating Activities	1346	1302	2451	2676	2941
Capital Expenditure	(697)	(1108)	(1011)	(1368)	(1368)
Cash Flow Investing Activities	(3,448)	(1,196)	(176)	(1,310)	(1,310)
Increase/(Decrease) in Borrowings	3,110	715	(1,100)	(100)	(300)
Dividend payments including tax	(225)	(204)	(150)	(150)	(150)
Cash Flow from Financing Activities	2660	75	(2584)	(1543)	(1361)
Net Cash Flow	558	181	(309)	(177)	270
Closing Balance	642	862	553	376	646

Key Ratios (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Margins					
Gross Margin	49.7%	48.9%	48.9%	49.8%	49.8%
EBITDA Margin	11.2%	9.3%	12.4%	11.8%	12.3%
PBT Margin (Adjusted)	8.2%	5.0%	8.5%	8.8%	9.6%
PAT Margin (Adjusted)	5.3%	4.1%	6.1%	6.3%	6.9%
DPS (INR)	25.00	20.00	20.00	20.00	20.00
Solvency Ratios					
Current Ratio	1.2	1.2	1.1	1.2	1.3
Debt/Equity	1.0	1.0	0.6	0.4	0.2
Net Debt/Equity	0.9	0.9	0.5	0.3	0.2
Interest Coverage	7.0	3.6	7.6	14.7	24.8
Profitability Ratios					
RoE (ex goodwill)	22.0%	17.2%	20.6%	19.0%	18.8%
RoCE (ex goodwill)	14.8%	11.4%	19.6%	19.0%	20.5%
RoE	17.9%	14.3%	17.8%	16.8%	17.0%
RoCE	13.5%	10.4%	17.7%	17.4%	18.8%
Valuation Ratios(x)					
P/E	13.4	14.4	9.1	8.2	6.8
P/S	0.7	0.6	0.6	0.5	0.5
P/B	2.4	2.1	1.6	1.4	1.2
P/CFO	11.4	11.8	6.2	5.7	5.2

Source: Company Data, SMIFS Research

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