

**CMP: INR 275**

**Rating: Buy**

**Target Price: 335**

**Stock Info**

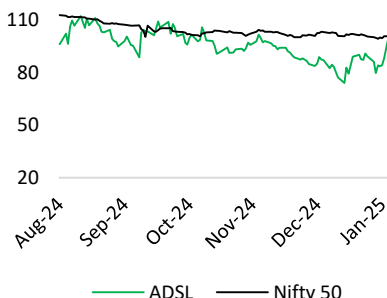
|                          |           |
|--------------------------|-----------|
| BSE                      | 532875    |
| NSE                      | ADSL      |
| Bloomberg                | ALDS IN   |
| Reuters                  | ADIS.BO   |
| Sector                   | IT        |
| Face Value (INR)         | 5         |
| Equity Capital (INR Mn)  | 274.2     |
| Mkt Cap (INR Mn)         | 1,546     |
| 52w H/L (INR)            | 320 / 123 |
| Avg Yearly Vol (in 000') | 975       |

**Shareholding Pattern %**

(As on Dec, 2024)

|                 |      |
|-----------------|------|
| Promoters       | 51.2 |
| Public & Others | 48.8 |

**ADSL Vs Nifty**



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Allied Digital services Ltd (ADSL) reported consolidated Revenue and EBITDA met estimates, while PAT beat our estimates. Consolidated revenue stood at INR 2,206 Mn, against Q2FY25 of INR 2,030 Mn registering a growth 28.93% YoY/8.64% QoQ. Inline with our estimate of INR 2,203 Mn EBITDA stood at INR 251 Mn, against Q2FY25 of INR 192 Mn, up by 21.13 %YoY & 30.40 % QoQ). Inline with our estimate of INR 238 Mn On the margins front, EBITDA margin down by 73bps YoY & up by 189bps QoQ to 11.4% against 9.5% in Q2FY25. (Margin estimate 10.8%). EBITDA margins have increased due to a decrease in other expenses and raw material. Consolidated PAT saw a growth of 51.50%YoY/ 52.67%QoQ to INR 177 Mn against Q2FY25 of INR 116 Mn. Above with our estimate of INR 156 Mn.

**Investment Rationale**

**Strong order book:** ADSL orders worth INR 2000 Mn strengthen a high-quality order book with a US multinational bank's first-level investment manager in Hong Kong and Japan. Key market tailwinds, especially in digital engineering, are driving the growing demand for advanced solutions, ensuring compensation capability

**Focus on improving margin led by long term contract:** The current EBITDA margin is around 12%, with the company aiming to maintain this and improve it over time. Margin pressure is being faced due to annual wage hikes of 7-8% and ESOP costs to retain talent. To improve margins, the company is focusing on increasing productivity with AI and new technologies, targeting higher-margin long-term contracts, and expanding into more profitable service areas. Offshore delivery is also being leveraged for higher margins. For FY26, the company aims to maintain or slightly improve margins while balancing growth investments. Many contracts are priced on a per-asset basis, providing leverage to improve margins through efficiency gains.

**Outlook and Valuation:** The company is seeing signs of recovery in discretionary spending and renewed momentum in the US market following the presidential election. With a strong pipeline and active discussions with several customers, the India business remains robust, driven by healthy demand across enterprise and government sectors. Over 2000 Mn in new orders and contract renewals were secured in the quarter, with a target of 10,000 Mn in annual revenues. Key growth drivers include direct customer onboarding, smart city expansion, and strengthening the global footprint, with management expressing optimism for sustained long-term growth. **We expect Allied's revenue, EBITDA, and PAT to grow at a CAGR of 16%/~20%/23%, respectively, over FY24-FY27E. We used DCF model to arrive at a target price of INR 335 per share (Earlier target price of INR per share 300). Accordingly, we upgrade our rating to "BUY" from Accumulate earlier on the stock.**

| Y/e 31 Mar (INR Mn) | FY24  | FY25E | FY26E | FY27E |
|---------------------|-------|-------|-------|-------|
| Revenues            | 6871  | 8166  | 10011 | 11012 |
| EBITDA              | 834   | 1078  | 1362  | 1542  |
| EBITDA Margin%      | 12.1% | 13.2% | 13.6% | 14.0% |
| PAT                 | 458   | 641   | 843   | 969   |
| ROCE                | 8.6%  | 10.3% | 11.9% | 12.3% |
| P/E                 | 33.2  | 23.5  | 17.9  | 15.6  |

**Exhibit 1: Financial estimates**

| Particulars (INR mn)     | Q3FY25 | Q2FY25 | Q3FY24 | YoY (%)       | QoQ (%)       |
|--------------------------|--------|--------|--------|---------------|---------------|
| Revenue                  | 2,206  | 2,030  | 1,711  | 28.93%        | 8.64%         |
| Employee cost            | 375    | 350    | 337    | 11.03%        | 6.94%         |
| Other Expenses           | 177    | 175    | 180    | -1.72%        | 0.91%         |
| EBITDA                   | 251    | 192.1  | 206.8  | 21.13%        | 30.40%        |
| <i>EBITDA margin (%)</i> | 11.36% | 9.46%  | 12.09% | <i>-73bps</i> | <i>189bps</i> |
| Depn & amort.            | 49     | 48     | 41     | 17.72%        | 0.21%         |
| EBIT                     | 202    | 143.7  | 165.6  | 21.98%        | 40.57%        |
| Interest expense         | 24     | 25     | 10     | 134.95%       | -4.72%        |
| Other Income             | 23     | 38     | 6      | 294.83%       | -39.26%       |
| Pretax profit            | 201    | 156    | 161.1  | 24.58%        | 28.65%        |
| Tax                      | 24     | 40     | 44     | -46.61%       | -41.00%       |
| Tax rate (%)             | 11.76% | 25.64% | 27.44% | -57.14%       | -54.14%       |
| Adjusted Net profit      | 177    | 116    | 117    | 51.37%        | 52.67%        |
| Exceptionals             | -      | -      | -      |               |               |
| Reported Net Profit      | 177.1  | 116    | 117    | 51.37%        | 52.67%        |
| EPS (INR)                | 3.2    | 2.1    | 2.1    | 53.05%        | 53.95%        |

Source: Arihant Research, Company

|               | Q3FY25 |          | Q3FY24 | Q2FY25 | YoY %   | QoQ %  |
|---------------|--------|----------|--------|--------|---------|--------|
|               | Actual | Estimate |        |        |         |        |
| Revenue       | 2,206  | 2,203    | 1,711  | 2,030  | 28.93%  | 8.64%  |
| GP            | 825    | 819      | 987    | 755    | -16.45% | 9.20%  |
| GP Margin     | 37.4%  | 37.2%    | 57.7%  | 37.2%  | -2030   | 19     |
| EBITDA        | 251    | 238      | 207    | 192    | 21.13%  | 30.40% |
| EBITDA Margin | 11.4%  | 10.8%    | 12.1%  | 9.5%   | -73     | 189    |
| PAT           | 177    | 156      | 117    | 116    | 51.50%  | 52.67% |
| PAT margin    | 8.03%  | 7.07%    | 6.83%  | 5.71%  | 120     | 232    |

### Q3FY25 Concall Highlights

Targeting INR 10,000 Mn revenue by FY26, with continued improvement in EBITDA margin (9MFY25 12%).

Data center relocations incurred costs but improved recovery processes; 16-city migration completed as a core business capability.

Pune project: Two major milestones in the quarter some portion billed, with recurring revenue expected in Q3 and Q4 FY25.

Q3FY25 growth driven by strong momentum, improved EBITDA, and PAT.

Cost efficiencies maintained and India business remains robust.

Union Budget support for manufacturing will benefit India operations.

Favorable momentum in US and other geography.

INR 2000 Mn order strengthens a high-quality order book with a US multinational bank—first-level investment manager in Hong Kong and Japan.

Key market tailwinds, especially in digital engineering.

Growing demand for advanced solutions, ensuring compensation capability.

Expanding total addressable market and revenue grew 16% geographically. Services revenue up 22% YoY, solutions revenue higher by 16%, with good visibility and recurring business.

Positive execution environment and signs of discretionary spending recovery.

IT services deal with a major US company to enhance US experience and reduce costs in nonprofit education.

ADSL reinforcing technology capabilities in cybersecurity for corporate offices, multinationals, and the automotive sector.

Large-scale ADSL cloud deployment to improve transparency and efficiency.

Driver monitoring system implemented in Mumbai for the automotive sector and additional IT infrastructure received for a bank in Gujarat. Driver monitoring business: Innovative AI-driven solutions for strategy development and surveillance. OEM and insurance companies leveraging driver monitoring for risk assessment and behavior analysis.

Network upgrade program underway.

Operational efficiency improvements and strengthened contract capabilities.

Reclassification of employee costs, shifting direct expenses in FY25 to below Q3 levels from last year.

Wage hike impact accounted for 7-8%. ESOP expenses booked quarterly.

Interest cost variations due to subsidiary profits.

Smart city projects gaining traction in Europe and potential subsidiary expansion considered.

Onsite services delivering higher profitability -90% onsite, 10% remote model improves margins.

Tax rate reduced to 12%, with deferred tax benefits lowering the overall FY26 tax rate to 20%.

Revenue mix: 68% from the RoW, 32% from India, with annual variations based on the order book.

Strong performance in smart cities and the Indian market across various business segments.

Cybersecurity issue linked to a previous vendor but minimal financial impact. legal services engaged since December.

DSO reduced significantly from 118 days in FY22 to 81 days in FY24, further improving to 72 days in Q3 FY25, with an aspiration to reach 65 days.

DeepSeek expected to enhance opportunities, reduce costs with Gen AI, and lead to overall cost efficiency.

Exhibit 2: Geographical Presence

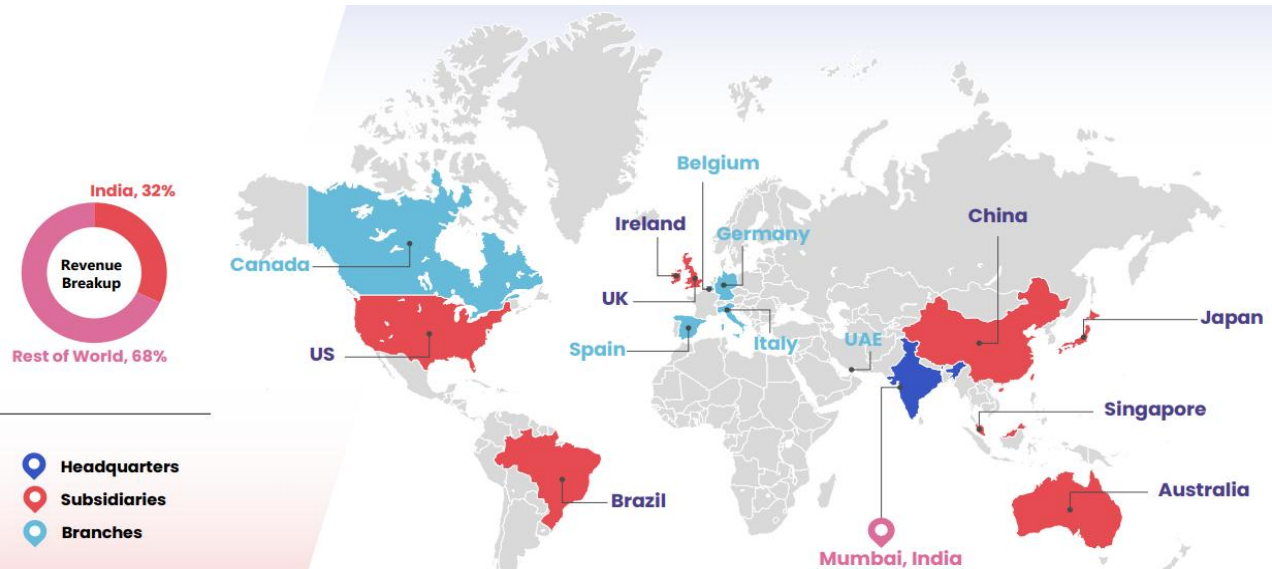


Exhibit 3: Decline in ROCE due to investment in services Exhibit 4: Decline in RoNw

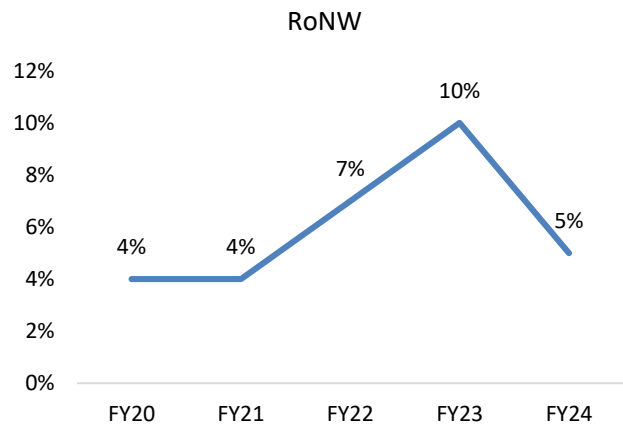
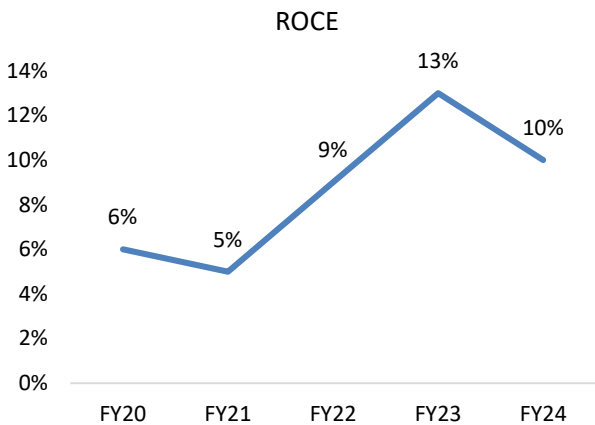


Exhibit 5: Debt to Equity (x)

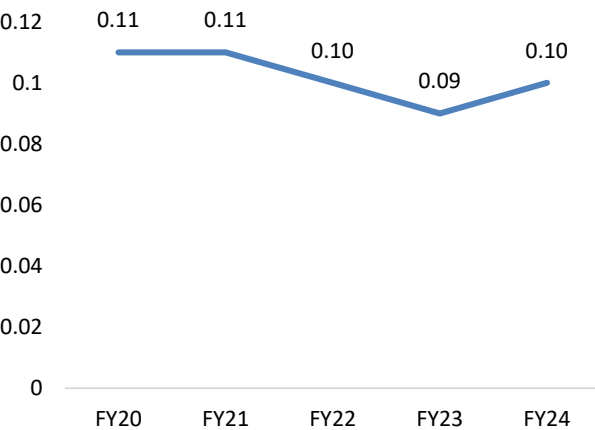
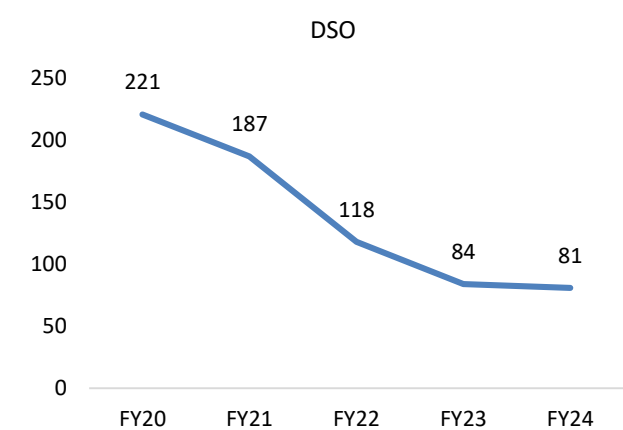


Exhibit 6: Aspiration to reach 65 days



# Allied Digital Services Ltd. Q1FY25 Result Update

## DCF Valuation

### Valuation Assumptions

|                           |     |
|---------------------------|-----|
| g (World Economic Growth) | 5%  |
| Rf                        | 7%  |
| Rm                        | 13% |
| Beta (2 Yr)               | 0.9 |
| CMP (INR)                 | 275 |

### Valuation Data

|  |               |
|--|---------------|
| Total Debt (long term borrowings) (2024) | 117           |
| Cash & Cash Equivalents (2024)           | 1,379         |
| Number of Diluted Shares (2024)          | 55            |
| Tax Rate (2025)                          | 7.84%         |
| Interest Expense Rate (2025)             | 28.8%         |
| MV of Equity                             | 15,208        |
| Total Debt                               | 117           |
| <b>Total Capital</b>                     | <b>15,325</b> |

### WACC

|             |               |
|-------------|---------------|
| We          | 99.2%         |
| Wd          | 0.8%          |
| Ke          | 12.6%         |
| Kd          | 26.6%         |
| <b>WACC</b> | <b>12.71%</b> |

### FCFF & Target Price

| FCFF & Target Price        |            | Explicit Forecast Period |              |              |              |              |              |              |              |              |              | Linear Decline Phase |        | Terminal Yr |
|----------------------------|------------|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------------|--------|-------------|
| Year                       | 2025       | 2026                     | 2027         | 2028         | 2029         | 2030         | 2031         | 2032         | 2033         | 2034         | 2035         | 2036                 | 2037   | 2038        |
| EBIT * (1-Tax Rate)        | 665        | 854                      | 972          | 1,097        | 1,226        | 1,353        | 1,478        | 1,598        | 1,711        | 1,812        | 1,900        | 1,995                |        |             |
| Dep                        | 180        | 207                      | 228          | 250          | 275          | 306          | 335          | 362          | 388          | 411          | 430          | 452                  |        |             |
| Purchase of Assets         | 245        | 300                      | 330          | 363          | 400          | 445          | 486          | 525          | 562          | 596          | 624          | 656                  |        |             |
| Changes in Working Capital | (354)      | (370)                    | (417)        | (424)        | (437)        | (503)        | (549)        | (594)        | (636)        | (674)        | (706)        | (741)                |        |             |
| FCFF                       | 954        | 1,131                    | 1,287        | 1,408        | 1,539        | 1,718        | 1,876        | 2,029        | 2,172        | 2,301        | 2,411        | 2,532                |        |             |
| % Growth in Post Tax EBIT  |            | 28.6%                    | 13.8%        | 12.8%        | 11.5%        | 10.4%        | 9.3%         | 8.1%         | 7.0%         | 5.9%         | 4.8%         | 5.0%                 |        |             |
| As % of Post Tax EBIT      |            |                          |              |              |              |              |              |              |              |              |              |                      |        |             |
| Dep                        | 27.1%      | 24.2%                    | 23.4%        | 22.8%        | 22.5%        | 22.7%        | 22.7%        | 22.7%        | 22.7%        | 22.7%        | 22.7%        | 22.7%                |        |             |
| Purchase of Assets         | 36.9%      | 35.2%                    | 34.0%        | 33.1%        | 32.6%        | 32.9%        | 32.9%        | 32.9%        | 32.9%        | 32.9%        | 32.9%        | 32.9%                |        |             |
| Changes in Working Capital | -53.3%     | -43.3%                   | -42.9%       | -38.7%       | -35.7%       | -37.2%       | -37.2%       | -37.2%       | -37.2%       | -37.2%       | -37.2%       | -37.2%               |        |             |
| FCFF                       | 954        | 1,131                    | 1,287        | 1,408        | 1,539        | 1,718        | 1,876        | 2,029        | 2,172        | 2,301        | 2,411        | 2,532                |        |             |
| Terminal Value             |            |                          |              |              |              |              |              |              |              |              |              |                      | 32,820 |             |
| <b>Total Cash Flow</b>     | <b>954</b> | <b>1,131</b>             | <b>1,287</b> | <b>1,408</b> | <b>1,539</b> | <b>1,718</b> | <b>1,876</b> | <b>2,029</b> | <b>2,172</b> | <b>2,301</b> | <b>2,411</b> | <b>35,352</b>        |        |             |

|                       |        |
|-----------------------|--------|
| Enterprise Value (EV) | 17,270 |
| Less: Debt            | 117    |
| Add: Cash             | 1,379  |
| Equity Value          | 18,531 |

|                              |     |
|------------------------------|-----|
| Equity Value per share (INR) | 335 |
|------------------------------|-----|

|           |        |
|-----------|--------|
| % Returns | 21.86% |
|-----------|--------|

|        |     |
|--------|-----|
| Rating | BUY |
|--------|-----|

335

WACC (%)

| g(%)   |       |      |      |      |      |      |      |       |     |  |  |
|--------|-------|------|------|------|------|------|------|-------|-----|--|--|
|        | 3.00  | 3.25 | 3.50 | 3.75 | 4.00 | 4.25 | 4.50 |       |     |  |  |
|        | 2.75% | %    | %    | %    | %    | %    | %    | 4.75% |     |  |  |
| 11.00% | 349   | 356  | 363  | 370  | 379  | 387  | 397  | 407   | 417 |  |  |
| 11.25% | 338   | 345  | 351  | 358  | 366  | 374  | 382  | 392   | 402 |  |  |
| 11.50% | 329   | 334  | 341  | 347  | 354  | 361  | 369  | 378   | 387 |  |  |
| 11.75% | 319   | 325  | 331  | 337  | 343  | 350  | 357  | 365   | 373 |  |  |
| 12.00% | 311   | 316  | 321  | 327  | 333  | 339  | 346  | 353   | 361 |  |  |
| 12.25% | 302   | 307  | 312  | 317  | 323  | 329  | 335  | 342   | 349 |  |  |
| 12.50% | 295   | 299  | 304  | 308  | 314  | 319  | 325  | 331   | 338 |  |  |
| 12.75% | 287   | 291  | 296  | 300  | 305  | 310  | 315  | 321   | 327 |  |  |
| 13.00% | 280   | 284  | 288  | 292  | 297  | 302  | 307  | 312   | 317 |  |  |

Source: Company reports, Arihant Capital Research, Figures are in INR Mn. except share price and percentage data

## Key Financials

| Income Statement (INR Mn)          |               |               |               |               |
|------------------------------------|---------------|---------------|---------------|---------------|
| Year End-March                     | FY24          | FY25E         | FY26E         | FY27E         |
| Revenues                           | 6,871         | 8,166         | 10,011        | 11,012        |
| Change (%)                         | 4.1%          | 18.9%         | 22.6%         | 10.0%         |
| Other Income                       | 12            | 35            | 52            | 63            |
| Cost of Goods Sold (COGS)          | 4,074         | 4,802         | 5,846         | 6,387         |
| <b>Gross Profit</b>                | <b>2,809</b>  | <b>3,399</b>  | <b>4,217</b>  | <b>4,688</b>  |
| Employee costs                     | 1,381         | 1,633         | 2,002         | 2,202         |
| Other expenses                     | 582           | 653           | 801           | 881           |
| <b>Total Expenses</b>              | <b>6,037</b>  | <b>7,088</b>  | <b>8,650</b>  | <b>9,471</b>  |
| <b>EBITDA</b>                      | <b>834</b>    | <b>1,078</b>  | <b>1,362</b>  | <b>1,542</b>  |
| <b>EBITDA Margin</b>               | <b>12.13%</b> | <b>13.20%</b> | <b>13.60%</b> | <b>14.00%</b> |
| Depreciation                       | 164           | 180           | 207           | 228           |
| <b>EBIT</b>                        | <b>670</b>    | <b>898</b>    | <b>1155</b>   | <b>1314</b>   |
| Interest                           | 52            | 67            | 67            | 67            |
| <b>PBT</b>                         | <b>630</b>    | <b>866</b>    | <b>1,140</b>  | <b>1,310</b>  |
| Exceptional Items                  | 0             | 0             | 0             | 0             |
| <b>PBT after exceptional Items</b> | <b>630</b>    | <b>866</b>    | <b>1,140</b>  | <b>1,310</b>  |
| Tax                                | 171           | 225           | 296           | 340           |
| <b>Rate (%)</b>                    | <b>6.7%</b>   | <b>7.8%</b>   | <b>8.4%</b>   | <b>8.8%</b>   |
| <b>PAT</b>                         | <b>458.4</b>  | <b>640.6</b>  | <b>843.3</b>  | <b>969.1</b>  |
| <b>PAT Margin (%)</b>              | <b>6.7%</b>   | <b>7.8%</b>   | <b>8.4%</b>   | <b>8.8%</b>   |

| Balance Sheet (INR Mn)               |              |              |              |               |
|--------------------------------------|--------------|--------------|--------------|---------------|
| Year End-March                       | FY24         | FY25E        | FY26E        | FY27E         |
| <b>Sources of Funds</b>              |              |              |              |               |
| Share Capital                        | 276.5        | 274.2        | 274.2        | 274.2         |
| Reserves & Surplus                   | 5,510        | 6,679        | 7,523        | 8,492         |
| <b>Net Worth</b>                     | <b>5,786</b> | <b>6,954</b> | <b>7,797</b> | <b>8,766</b>  |
| <b>Loan Funds</b>                    | <b>596</b>   | <b>559</b>   | <b>559</b>   | <b>559</b>    |
| MI, Deferred Tax & other Liabilities | 79           | 81           | 81           | 81            |
| <b>Capital Employed</b>              | <b>7,781</b> | <b>8,745</b> | <b>9,676</b> | <b>10,680</b> |
| <b>Application of Funds</b>          |              |              |              |               |
| Gross Block                          | 8,473        | 9,373        | 10,273       | 11,173        |
| Less: Depreciation                   | 7,401        | 8,057        | 8,776        | 9,558         |
| <b>Net Block</b>                     | <b>1,071</b> | <b>1,315</b> | <b>1,496</b> | <b>1,614</b>  |
| CWIP                                 | -            | -            | -            | -             |
| Other Non-current Assets             | 395          | 434          | 478          | 525           |
| Other Current Assets                 | 319.4        | 351.3        | 386.5        | 425.1         |
| <b>Net Fixed Assets</b>              | <b>1,785</b> | <b>2,101</b> | <b>2,360</b> | <b>2,565</b>  |
| <b>Investments</b>                   | <b>62.20</b> | <b>65.31</b> | <b>68.58</b> | <b>72.00</b>  |
| Debtors                              | 1,499        | 1,815        | 2,002        | 2,202         |
| Inventories                          | 481          | 591          | 675          | 715           |
| Cash & Bank Balance                  | 1,267        | 1,447        | 1,471        | 1,762         |
| Loans & Advances & other CA          | 827          | 944          | 1,079        | 1,234         |
| <b>Total Current Assets</b>          | <b>4,479</b> | <b>5,247</b> | <b>5,715</b> | <b>6,465</b>  |
| Current Liabilities                  | 1,243        | 1,463        | 1,534        | 1,551         |
| Provisions                           | 225          | 225          | 225          | 225           |
| <b>Net Current Assets</b>            | <b>3,236</b> | <b>3,784</b> | <b>4,181</b> | <b>4,914</b>  |
| <b>Total Assets</b>                  | <b>7,781</b> | <b>8,745</b> | <b>9,676</b> | <b>10,680</b> |

| Cash Flow Statement (INR Mn)             |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
| Year End-March                           | Fy24           | FY25E          | FY26E          | FY27E          |
| <b>PBT</b>                               | <b>630</b>     | <b>866</b>     | <b>1,140</b>   | <b>1,310</b>   |
| Adjustments: Add                         | 865            | 726            | 991            | 1,124          |
| Change in assets & Liabilities           | (38)           | (352)          | (370)          | (417)          |
| <b>Net Cash From Operations</b>          | <b>865</b>     | <b>726</b>     | <b>991</b>     | <b>1,124</b>   |
| <b>Capex</b>                             | <b>(178)</b>   | <b>(210)</b>   | <b>(333)</b>   | <b>(265)</b>   |
| Cash From Investing                      | (321)          | (341)          | (618)          | (419)          |
| Other financiag activities               | 296            | (20)           | 17             | 18             |
| <b>Finance cost paid</b>                 | <b>(52.10)</b> | <b>(67.13)</b> | <b>(67.13)</b> | <b>(67.13)</b> |
| Cash From Financing                      | 1              | (189)          | (347)          | (389)          |
| <b>Net Increase/ Decrease in Cash</b>    | <b>544</b>     | <b>195</b>     | <b>27</b>      | <b>316</b>     |
| <b>Cash at the beginning of the year</b> | <b>835</b>     | <b>1,379</b>   | <b>1,574</b>   | <b>1,601</b>   |
| <b>Cash at the end of the year</b>       | <b>1,379</b>   | <b>1,574</b>   | <b>1,601</b>   | <b>1,917</b>   |

| Key Ratios                |       |       |       |       |
|---------------------------|-------|-------|-------|-------|
| Year End-March            | FY24  | FY25E | FY26E | FY27E |
| <b>Per share (INR)</b>    |       |       |       |       |
| EPS                       | 8.3   | 11.7  | 15.4  | 17.7  |
| BVPS                      | 112   | 127   | 142   | 160   |
| <b>Valuation (x)</b>      |       |       |       |       |
| P/E                       | 33.2  | 23.5  | 17.9  | 15.6  |
| P/BV                      | 2.5   | 2.2   | 1.9   | 1.7   |
| EV/EBITDA                 | 15.1  | 11.6  | 9.9   | 8.6   |
| <b>Return ratio (%)</b>   |       |       |       |       |
| EBIDTA Margin             | 12.1% | 13.2% | 13.6% | 14.0% |
| PAT Margin                | 6.7%  | 7.8%  | 8.4%  | 8.8%  |
| ROE                       | 7.4%  | 9.2%  | 10.8% | 11.1% |
| ROCE                      | 8.6%  | 10.3% | 11.9% | 12.3% |
| <b>Leverage Ratio (%)</b> |       |       |       |       |
| Total D/E                 | 0.0   | 0.0   | 0.0   | 0.0   |
| <b>Turnover Ratios</b>    |       |       |       |       |
| Asset Turnover (x)        | 1.5   | 1.6   | 1.8   | 1.7   |
| Inventory Days            | 481   | 591   | 675   | 715   |
| Receivable Days           | 80    | 75    | 70    | 70    |
| Payable days              | 23    | 23    | 23    | 23    |

## Arihant Research Desk

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

| Research Analyst<br>Registration No. | Contact                 | Website  | Email Id   |
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