

# MTAR TECHNOLOGIES LTD

# LKP

## Company Background

MTAR Technologies Limited ("MTAR") is a leading precision engineering solutions company engaged in the manufacture of mission critical precision components with close tolerances (5-10 microns), and in critical assemblies, to serve projects of high national importance, through their precision machining, assembly, testing, quality control, and specialized fabrication competencies, some of which have been indigenously developed and manufactured. They primarily serve customers in the nuclear, space & defence, and clean energy sectors. Since inception, they have strived to grow continually, contributing to the Indian civilian nuclear power programme, Indian space programme, Indian defence and aerospace sector, global defence and aerospace sector, as well as to the global clean energy sector. Over the years, they have also developed import substitutes such as ball screws and water lubricated bearings that are specialized and used in the sectors the company caters to. The engineering capability of the company, evolved over decades, has enabled them to consistently offer quality complex precision manufactured components and assemblies, within stipulated timelines and at reasonable cost in most cases, allowing them to forge a robust relationship with their customers.

MTAR Technologies lays special emphasis on research and development ("R&D") of their manufacturing processes as it allows them to evolve their own process technologies thereby enabling them to achieve design specifications with accuracy irrespective of the size of the products. The company has an order book of ₹3.36 bn out of which ₹0.8 bn is of clean energy, ₹0.932 bn is of nuclear sector while the rest of ₹1.606 bn is in the space and defence sector.

## Offer Summary

The Hyderabad based company is planning to raise an issue size of upto 10,372,419 shares (Fresh issue of upto 2,148,149 equity shares and Offer for Sale of upto 8,224,270 Equity shares). The issue size will be ₹5.95- 5.96 bn with FV of ₹10. The price band is of ₹574-575 and the lot size is 26 and in multiples thereof. Post issue implied market cap will range between ₹17.66-17.69 bn. The issue opens on 3rd March and closes on 5th March 2021.

## Strong Financials

The company has grown at 16.5% CAGR over the last 3 years at the topline, while its EBITDA margins were reported at 28.5% in FY 20. MTAR not being a typical defense or Capital Goods company, still has a healthy order book at 1.7x FY20 revenues and superior profitability ratios as compared to its peers. In times when the GOI has been cutting down on defence budget, the company has consistently delivered profits at the bottomline, with net margins at 14% in the last fiscal. It has a significant interest coverage ratio and the lowest gearing ratio in the industry.

## Outlook and Valuation

At the higher price band of ₹575, the stock is valued at 20x FY20 earnings of ₹28.3 and commands premium considering its healthy order book, visibility of topline growth, competitive edge, superior profitability as compared to peers, return ratios, wide clientele spread across the globe, sound R&D base and technological progress.

We recommend investors to SUBSCRIBE to the IPO of MTAR

### Issue Details

Issue of upto 10,372,419 Equity Shares.

(Fresh Issue of upto 2,148,149 Equity Shares and Offer for Sale of upto 8,224,270 Equity Shares)

### Post Issue Implied Market Cap

₹ 1,766 Cr – 1,769 Cr

### Issue Highlights

Issue Size:	₹ 595.38 – 596.41 Cr
No. of Shares:	10,372,419 Equity Shares
Face Value:	₹ 10
Listing:	BSE & NSE
Issue Opens On:	Wednesday, 3rd Mar'2021
Issue Closes On:	Friday, 5th Mar'2021
Price Band :	₹ 574 - 575
Bid Lot:	26 Shares and in multiple thereof
BRLMs:	JM Financial, IIFL Securities
Registrar:	KFin Technologies Pvt. Ltd.

### Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	10-03-2021
Refunds/Unblocking ASBA Fund	12-03-2021
Credit of Equity Shares to DP A/c	15-03-2021
Trading Commences	16-03-2021

### Issue Break-up

	No. of Shares	₹ In Cr	% of Issue
QIB	5,186,209	297.69 – 298.21	50%
NIB	1,555,862	89.31 – 89.46	15%
Retail	3,630,346	208.38 -208.74	35%
<b>Total</b>	<b>10,372,417</b>	<b>595.38 – 596.41</b>	<b>100%</b>

### Shareholding ( In No. of shares)

	Pre Issue	Post Issue
	28,611,442	30,759,591

### Shareholding (in %)

Promoters & Promoter Grp.	62.24%	50.25%
Public	37.76%	49.75%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

### Key Managerial Personnel

**Subbu Venkata Rama Behara** is the Chairman of the Board, and an Independent Director of the company. Apart from his association with the company, he is a director on the boards of Ola Electric Mobility Pvt. Ltd., Greaves Cotton Ltd. and Ampere Vehicles Pvt. Ltd., amongst others.

**Parvat Srinivas Reddy** is the Managing Director of the company. He has been a director on the Board since March 11, 2015 and was appointed as the Managing Director on September 1, 2020. He has been entrusted with the overall responsibility of management of the company and its affairs. He has over 29 years of work experience.

**Devesh Dhar Dwivedi** is the Chief Operating Officer of the company. He has been associated with the company since September 2019. He is responsible for leading the day to day operations of the company in accordance with its business strategy, operating plan and capital budgets. He has over 13 years of experience in the defence, manufacturing, information technology and engineering, procurement and construction sectors, among others.

**Sudipto Bhattacharya** is the Chief Financial Officer of the company. He has been associated with the company since September 1, 2020. He is responsible for the planning, implementation, management and running of all financial activities of the company.

**Shubham Sunil Bagadia** is the Company Secretary and Compliance Officer of the company. He has been associated with the company since October 20, 2020. He is responsible for ensuring compliance with statutory and regulatory requirements, and ensuring that decisions of the board of directors are implemented.

**Pusparaj Satpathy** is the Vice President, Human Resources of the company. He has been associated with the company since December 11, 2019. He is responsible for the human resource development functions of the company. He has over 23 years' experience in the human resources field.

### Business Overview

MTAR focuses on clean energy as one of their key customer sectors and are accordingly, involved in the manufacture of power units, specifically hot boxes, and in the development and manufacture of hydrogen boxes and electrolyzers, to serve Bloom Energy Inc., United States ("Bloom Energy") with which, they have been associated with, for over 9 years. While hot boxes use methane to generate power, hydrogen boxes shall use methane to generate hydrogen that shall in-turn, be used to generate power. In addition, electrolyzers will produce methane-free hydrogen that shall be used to produce power.

In addition, they have been serving customers in the nuclear sector for over 35 years, and have established relationships with the Nuclear Power Corporation of India Ltd. ("NPCIL") having served them for over 16 years. They manufacture and supply specialized products such as fuel machining head, drive mechanisms, bridge and column and coolant channel assemblies, among others, not just for the new pressurised heavy water nuclear reactors, but also for refurbishment of the existing reactors. They have also supplied critical products such as grid plate, control plug and inclined fuel transfer machine for the prototype fast breeder reactor.

MTAR Technologies is also a key supplier of mission critical components to customers within the space and defence sectors for their programs of national importance. Through their long-standing relationships of over three decades and 4 decades with customers such as the Indian Space Research Organisation ("ISRO") and the Defence Research and Development Organisation ("DRDO"), they have been able to supply specialized products to the Indian space programme and the Indian missile programme, respectively. For instance, their offerings to ISRO comprised a wide variety of mission critical components and critical assemblies such as liquid propulsion engines, components and assemblies for cryogenic engines, specifically turbo pumps, booster pumps, gas generators and injector heads for such engines, and electro-pneumatic modules to serve its space launch vehicles.

Within the defence sector, they undertook complex assemblies for the DRDO, including such as the base shroud assembly (for Agni missiles), and the assembly of secondary injection thrust vector control (“SITVC”) valves and hydraulic fin tip control (“HFTC”) valves. In addition, they also supplied critical defence products such as aluminium weldments and other machined components to their international customers including, an Israeli defense technology company.

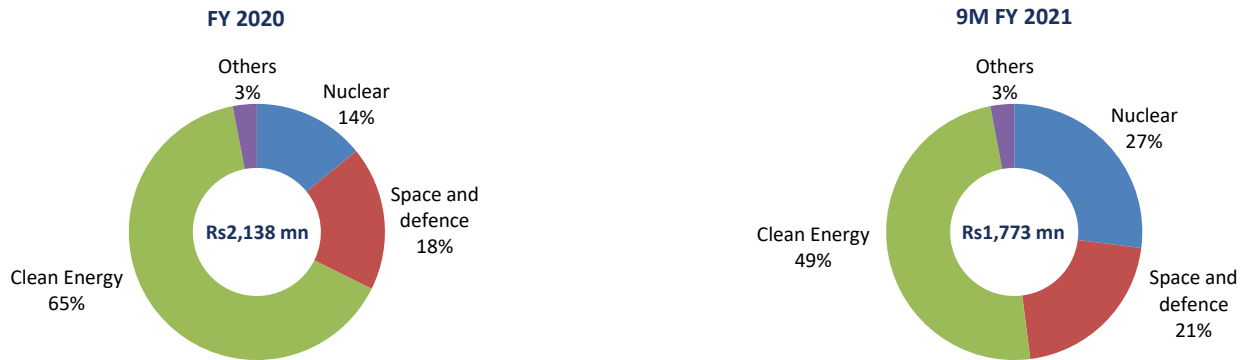
The company currently operates through 7 manufacturing facilities, including an export-oriented unit (“EOU”). These manufacturing facilities, each of which is situated in Hyderabad, Telangana, employ advanced equipment to undertake precision machining, assembly, testing and quality control, specialized fabrication, brazing and heat treatment, and other specialized processes, leading to them being a one-stop solutions company for their customers. Over the years, they have made investments in processes, infrastructure and systems, and in specialized training to their technical team to become a leading player in nuclear and space and defence sectors. They have also implemented various information technology solutions including for assisting in their designing and manufacturing operations, and enterprise resource planning (“ERP”) solutions to integrate key areas of their operations.

MTAR Technologies lays special emphasis on research and development (“R&D”) of their manufacturing processes as it allows them to evolve their own process technologies thereby enabling them to achieve design specifications with accuracy irrespective of the size of the products. They have also recently established an engineering cell that works on cycle time reductions to enhance cost-effective manufacturing solutions in niche engineering segment. Given their operations are specialized, their manufacturing facilities also employ extensive and stringent quality control mechanism at various stages including that of material issue and manufacturing process, to ensure that their finished product conforms to the quality and traceability requirements of their customers. Owing to the critical end applications of their products and such stringent quality requirements, it becomes very difficult for new players to get qualified for the projects they undertake. Various awards such as the ‘Best Quality Supplier Award’, ‘Defence Technology Absorption Award’, ‘INS Industrial Excellence Award’ and the ‘Award for Excellence in Aerospace Indigenization’ received by them in the past bear testimony to the faith their customers have in them and their ability to successfully serve and meet their requirements.

Product Offerings	
Customer Sector	Products
Clean energy sector	Power units
Nuclear sector	Fuel machining head, Bridge and column, Grid plate, Sealing plug, shielding plug, liner tubes and end fittings, Drive Mechanisms, Top hatch cover beams and deck plate assembly, CHAS, Ball screws and water lubricated bearings
Space and Defence sectors	Base shroud assembly and air Frames, Actuator assembly Components, Components for LCA, Various missile parts, Valves, Electro-pneumatic modules, Liquid propulsion engines, Cryogenic engines, Ball screws and water lubricated bearings

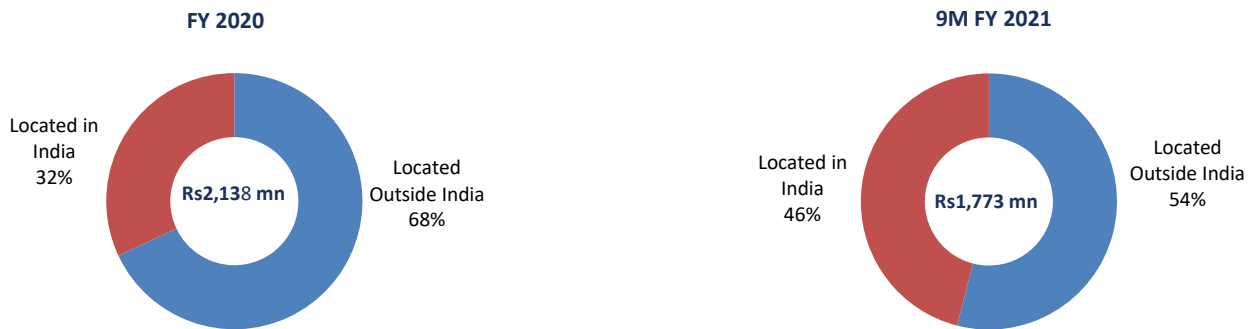
Revenue breakup

Sector Wise



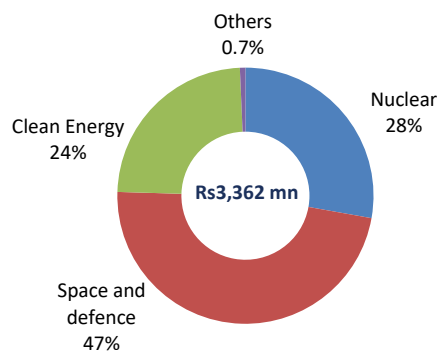
Source: Company and LKP Research

Customer Location wise



Source: Company and LKP Research

Order Book Mix (31-Dec-2020)



Source: Company and LKP Research

Customers

Company’s customers include some of India’s leading organizations in the nuclear, space and defence sectors such as the NPCIL, Indira Gandhi Centre for Atomic Research, ISRO, and the DRDO, among others. In addition, they also supply their products to international companies such as Bloom Energy and an Israeli defense technology company, among others.

## Investment Argument

### Precision Engineering expertise with complex product manufacturing capability

The company develops and manufactures a wide range of mission critical assemblies and precision components with close tolerances (5-10 microns), through its precision machining, assembly, and specialized fabrication facilities, for onward usage by their customers in the clean energy, nuclear, and space and defence sectors in India, and abroad. These capabilities are further supported by an extensive and stringent testing and quality control mechanism undertaken at each stage of the production process. Towards this end, they use high precision quality inspection equipment such as 3D co-ordinate measuring machines ("CMM"), laser measuring, optical alignment instruments, non-contact measuring, and other such non-destructive testing equipment to ensure ideal quality, as requested by the customers.

They also have experienced personnel who undertake procedures and inspections such as radiography, ultrasonic, magnetic particle and dye penetrant at their non-destructive testing ("NDT") facilities. Their capability in measuring and maintaining quality and measurement records at each level of the process is a key enabler. In order to enhance their product offerings, they have leveraged their adaptability and manufacturing agility by continually investing in their manufacturing facilities including in R&D, over the years. Their operations are supplemented by R&D, a critical part of their business capability that is undertaken primarily for their manufacturing processes. As of December 31, 2020, the company employed 14 engineers, 6 designers, and 4 technicians in their process planning and methods team.

### Wide product portfolio leading to long-standing relationships with the customers

As on December 31, 2020, company's major product portfolio includes 3 kinds of products in the clean energy sector, 14 kinds of products in the nuclear sector and 6 kinds of products in the space and defence sectors. They strive to understand their customers' specific business needs and provide products to meet their requirements and accordingly, their ability to provide quality products as per the customer specification, and their consistent customer servicing standards, have enabled them to increase their customers' dependence on them. Within the nuclear sector, their long standing relationship of over 16 years with NPCIL bears testimony to their ability to manufacture and supply specialized products. Within the space sector, they have established relationship with ISRO to whom they have been supplying a wide variety of mission critical components and critical assemblies for its various missions, for over 3 decades.

They have also invested in the development of roller screws, which is an import substitute, and are involved in developing the associated technology. Once this development has been completed, they will, in India, be the first manufacturer of roller screws, while this product shall be used for a wide variety of applications in the nuclear, space and defence sectors.

### Track record of growth in financial performance

The company has been able to increase their total income at a CAGR of 16.56% during the last 3 Fiscals, from ₹1.61 bn in Fiscal 2018 to ₹2.18 bn in Fiscal 2020. The EBITDA has grown at a CAGR of 37.80% from Fiscal 2018 to Fiscal 2020. In the Fiscals ended 2018, 2019 and 2020, and in the 9 months ended December 31, 2019 and December 31, 2020, the return on capital employed was for 9.59%, 16.96%, 19.78%, 13.90% and 14.20%, respectively. Further, as on March 31, 2020 and as on December 31, 2020, the debt equity ratio was 0.13 and 0.27, respectively, as compared to 0.07 as on December 31, 2019, 0.12 as on Fiscal 2019 and 0.10 as on Fiscal 2018. The strong financial position and results of operations have enabled them to invest in key machining, assembly, fabrication and quality control infrastructure, and in R&D.

### Capitalize on upward trend of nuclear sector in India, increasing indigenization and policy initiatives in the defence sector, and commercialization of Indian space sector

The company seeks to leverage their capabilities, including their manufacturing facilities and quality control practices, to not only expand their product portfolio in the existing segments but also enter new business segments. They intend to enhance their capabilities and hence grow value chains to supply critical and differentiated engineered products with a healthy mix of developmental and

volume-based production. Their developmental based production has in the past, and shall in the future be focused towards customers in the nuclear and space and defence sectors whereas the volume based production typically caters to their customers in the clean energy, nuclear, space and defence sectors. This will be possible through acquisition of new customers for existing product lines / capabilities as well as through establishment of new capabilities such as sheet metal facility and enhancement of existing specialized fabrication capabilities that could be used to cater to existing and new customers. They also intend to take up specialized fabrication jobs for multi-national companies and other leading Indian organizations. In addition, the demand for clean energy is going to rise significantly and have accordingly, commenced manufacturing electrolyzers to produce methane-free hydrogen which can be used in multiple sectors to generate power. Also increasing public-private partnerships will also result into faster adoption of hydrogen based facilities.

**Focus on deepening and strengthening the relationships with the existing customers as well as catering to new customers**

The company plans to continue to focus on customers with whom they have long-standing relationships in order to develop and supply more sophisticated, higher margin products. The company has, along with their customers, been playing a key role in the co-development of quality products for key national programs such as Chandrayaan and Mangalyaan missions. In addition, they along with a nuclear research facility is engaged in developing Channel Health Assessment System (“CHAS”) and the detailed design, engineering, manufacturing and assembly is under process at one of their manufacturing facilities. On the basis of their relationship with their international customers, they shall be the one of the preferred suppliers in any potential defence offset transaction that such customer may be a part of. Company’s global delivery model to one of their customers, Bloom Energy, has demonstrated their ability to deliver quality products under strict quality norms and delivery timelines, and yet achieve cost reduction and profitability.

**Expand international presence including through increase in exports**

The company is currently involved in the manufacture of power units, specifically hot boxes, and in the development and manufacture of hydrogen boxes and electrolyzers, to serve Bloom Energy. Further, they have recently acquired a new international customer operating in the clean energy sector. The company intends to continue to expand their international operations to enhance their global presence in the sectors they cater to. They seek to identify markets where they can provide cost and operational advantages to their clients and distinguish themselves from other competitors. In addition, they intend to reach out to global OEMs who either currently have defence deals with India or have their business operations in India. They are also looking to enter into defence offset partnership with certain global OEMs and have incorporated their Subsidiary, Magnatar Aero Systems Pvt. Ltd. in this regard.

**Increasing manufacturing capacity to expand market share through organic and inorganic route**

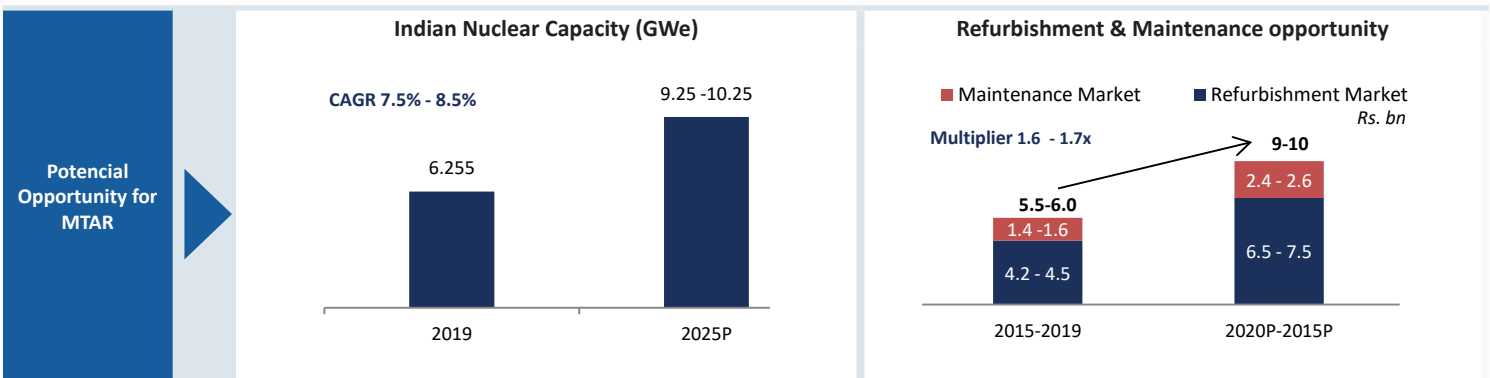
The company intends to strengthen their leading market position in niche manufacturing segment in India and achieve better economies of scale by establishing and acquiring additional facilities and expanding their existing production capacities. Over the years, they have consistently grown their manufacturing and production infrastructure through internal accruals. Consistent with past practice, they will look to add capacity in a phased manner to ensure that they utilize their capacity at optimal levels. The company is in the process of establishing an additional manufacturing facility at Adibatla in Hyderabad which is expected to become operational in Fiscal 2022. This establishment shall be a sheet metal facility which shall allow them to undertake sheet metal jobs for Bloom Energy, ISRO and certain other customers. They are also planning to construct an additional shed for specialized fabrication to supply products to their domestic as well as their international customers. In addition, they also intend to continue to increase their machining, fabrication and assembly capacities in their existing facilities. In order to diversify into new markets, they also aim to selectively acquire capabilities such as electrical and electronics that are complementary to their operations.

The company intends to continue to maintain or improve upon their benchmarks for cost structure. This cost structure sustainability shall be achieved over the years through emphasis on economies of scale, employment of learnings acquired in manufacturing end components, and in assemblies, and a robust supply chain developed for sourcing of specialised raw materials. They have in the past, strived to maintain a healthy mix of developmental and volume based production and intend to continue to do so in the future by enhancing their technological capabilities. One of the strategies they have adopted in the past and shall continue to adopt in the future is flexibility in manufacturing lines for different product verticals.

**Industry Outlook**

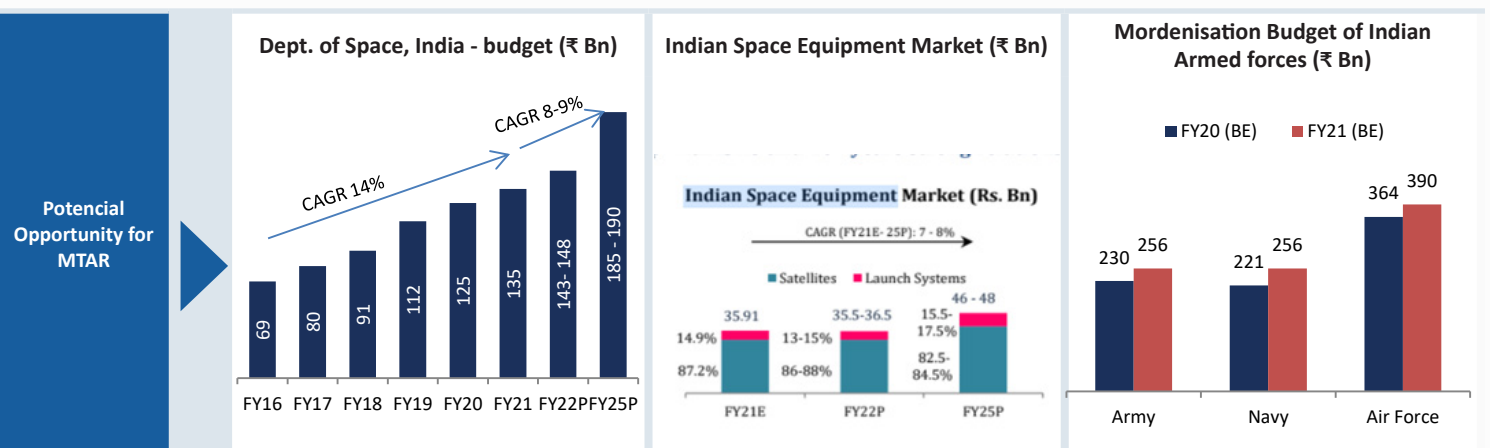
**Nuclear Segment Industry Opportunity**

Indian Nuclear Equipment Industry Highlights	Net Nuclear Power capacity target of <b>26.2 GWe by 2031</b>	<b>#22 Operational Reactors</b> capacity of <b>6.3 GWe</b>	Additional <b>#7 Reactor</b> to be operational in next <b>5 years</b>	<b>#14 New Reactors</b> planned and tenders to be released	<b>NPCIL is the key entity</b> managing all nuclear reactors in India
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**Space and Defence Industry Opportunity**

India Space & Defence Industry Highlights	ISRO Successfully completed <b>118 space cart</b> missions and <b>78 launch</b> missions	ISRO Conducted <b>14 missions</b> in FY19 and more than <b>11 missions</b> in FY20	<b>ISRO the key entity</b> spearheading India's space programme	Armed forces likely to spend <b>₹4,000 bn</b> over next 5-7 years	Defence exports grew at <b>82% CAGR</b> to <b>₹91 bn</b> over the past 3-4 years
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## Nuclear Segment Industry Opportunity

## Global Fuel Energy Industry Highlights

Renewable accounts for 26% of global electricity generation

Fuel cell market growing at 15% CAGR with increased R&D

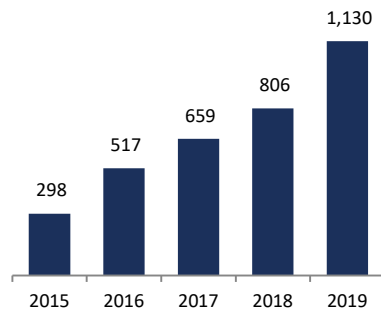
Fuel cells are able to produce electricity with **net zero** green house emissions

Bloom is key player globally in the fuel cell technology

45% CAGR in bloom's operating revenues from 2017 to 2019

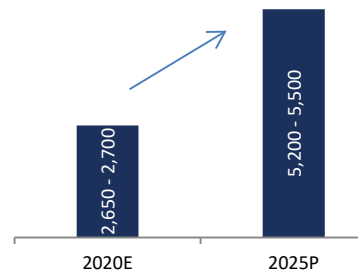
## Potential Opportunity for MTAR

## 3.8 times energy installations for fuel cell from 2015 to 2019 (MW)



## Global fuel cell industry size (USD mn)

CAGR 14% - 15%



## Growing Bloom business augurs well for MTAR

Company (\$mn)	Product revenue (2019)	Product revenue share	Product revenue CAGR *
Bloom Energy	557	71%	29%
Ballard Power	50	47%	53%
Fuel Cell Energy	-	1%	99%
Plug Power	150	65%	35%
SFC Energy	65.5	100%	-

## Competition

MTAR Technologies operates in a competitive environment and they expect to face greater competition from existing competitors located both in India and globally, and in particular from companies in United States and Germany. The company competes on the basis of their ability to fulfill their contractual obligations including the timely delivery of complex products manufactured by them and the price and quality of such products. They have a competitive edge with their precision engineered components and assemblies catered to the nuclear sector and given that some of the products manufactured by them are on a single tender basis. Its major domestic competitors are as follows -

1. Nuclear sector – L&T Heavy Engineering, Godrej & Boyce Manufacturing Company
2. Space and Defense Sector – L&T, Godrej & Boyce Manufacturing Co. Ltd, Hindustan aeronautics Ltd, Walchandnagar Industries
3. MTAR Technologies is a sole supplier from the Indian market to Bloom Energy as of Fiscal 2020.

## Peer comparison

Company	Year	Op. Income (₹ bn)	EBITDA (₹ bn)	PAT (₹ bn)	Op Margin	Net Margin	RoCE	Gearing (x)	Int. Coverage (x)	Current Ratio (x)
Mahindra Defence	FY20	3.1	0.4	0.2	13.7%	6.2%	16.3%	0.0	33.4	2.2
Alpha Design Technologies	FY19	2.3	0.3	0.1	12.9%	2.8%	2.8%	0.2	2.5	1.9
Vem Technologies	FY19	1.6	0.4	0.1	22.8%	5.5%	5.5%	0.9	2.5	1.1
CIM Tools	FY19	1.5	0.3	0.2	22.1%	10.1%	10.1%	1.7	3.9	1.2
<b>MTAR Technologies</b>	<b>FY20</b>	<b>2.1</b>	<b>0.6</b>	<b>0.3</b>	<b>28.5%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>0.1</b>	<b>13.1</b>	<b>1.5</b>
Schaeffler India	FY19	43.7	6.4	3.7	14.7%	8.4%	8.4%	0.0	154.8	3.6
SKF India	FY20	28.5	3.6	2.9	12.5%	10.1%	10.1%	0.0	48.0	3.4
Timken India	FY20	16.2	3.7	2.5	23.0%	15.2%	15.2%	0.0	140.5	3.7
Godrej & Boyce	FY20	114.1	8.4	2.2	7.4%	2.0%	2.0%	0.4	4.0	1.2
L&T	FY20	1460.4	236.5	108.9	16.2%	7.5%	7.5%	2.2	2.5	1.2

Note: L&T and Godrej & Boyce are diversified businesses with several other business units. The financials of these companies represent all the business units under the company.



P&L					
(₹ bn)	FY 18	FY 19	FY 20	H1 FY21	H1 FY20
Total income	1,596	1,837	2,137	998	1,220
% Growth	N/A	15.1%	16.3%	-18.2%	N/A
EBITDA	319	538	580	312	355
% Margins	20.0%	29.3%	27.1%	31.2%	29.1%
<b>PBT</b>	<b>172</b>	<b>404</b>	<b>456</b>	<b>251</b>	<b>272</b>
PAT	55	380	314	173	192
% Margins	3.4%	20.7%	14.7%	17.3%	15.8%
EPS (₹)	28.6	27.4	28.3	28.3	28.3

Balance Sheet					
(₹ bn)	FY 18	FY 19	FY 20	H1 FY21	H1 FY20
<b>Equity &amp; Liabilities</b>					
Total equity	2,055	2,349	2,251	2,447	2,448
Non current liabilities	118	6	77	32	124
Total current liabilities	637	696	1,135	635	1,022
<b>Total liabilities</b>	<b>2,810</b>	<b>3,051</b>	<b>3,463</b>	<b>3,114</b>	<b>3,594</b>
<b>Assets</b>					
Total Non current assets	1,714	1,962	1,747	1,777	1,786
Total current assets	1,096	1,089	1,716	1,337	1,808
<b>Total assets</b>	<b>2,810</b>	<b>3,051</b>	<b>3,463</b>	<b>3,114</b>	<b>3,594</b>

Cashflow Statement					
(₹ bn)	FY 18	FY 19	FY 20	H1 FY21	H1 FY20
Cash flow from operating activities	144.0	421.0	561.0	220.0	-27.0
Cashflow from investing activities	-13.2	-328.0	-120.6	-75.0	-84.0
Cash flow from financing activities	-138.0	-75.0	-413.0	-245.0	65.6
Net cash increase/(decrease)	-7.2	18.0	27.4	-100.0	-45.4
Cash at the beginning of the period	97.6	90.4	108.4	108.4	135.8
Cash at the end of the period	90.4	108.4	135.8	8.4	90.4

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