FIRST LIGHT

25 January 2023

RESEARCH

BOB ECONOMICS RESEARCH | FY24 BUDGET PREVIEW

Balance between populism and consolidation

JSW STEEL | TARGET: Rs 715 | –1% | HOLD

Exciting growth but unfavourable risk-reward; maintain HOLD

SBI CARD | TARGET: Rs 1,034 | +35% | BUY

Higher costs continue to dent profitability

AMBER ENTERPRISES | TARGET: Rs 2,100 | +3% | HOLD

Strong topline but margins remain muted

SIEMENS INDIA | TARGET: Rs 3,500 | +14% | BUY

Annual report highlights – Primed for accelerated growth

KEI INDUSTRIES | TARGET: Rs 1,900 | +25% | BUY

Upbeat numbers

Daily macro indicators

Indicator	20-Jan	23-Jan	Chg (%)
US 10Y yield (%)	3.48	3.51	3bps
India 10Y yield (%)	7.35	7.35	0bps
USD/INR	81.13	81.39	(0.3)
Brent Crude (US$/bbl)	87.6	88.2	0.6
Dow	33,375	33,630	0.8
Hang Seng	21,651	22,045	1.8
Sensex	60,622	60,942	0.5
India FII (US$ mn)	**19-Jan**	**20-Jan**	**Chg ($ mn)**
FII-D	45.6	42.5	(3.0)
FII-E	72.3	(202.0)	(274.3)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: FY24 BUDGET PREVIEW

Despite this being last full budget before the elections, budget for FY24 is unlikely to be a populist one. Government is expected to remain committed to its fiscal glide path announced in the budget for FY22 (<4.5% deficit by FY26), and aim to reduce the fiscal deficit ratio next year by 50 -75 bps to around 5.75%. Working within this framework, central government will try to balance task of providing social protection for the weaker section of the society, boost disposable income and give private investment and state capex a nudge. Revenue growth will also act as a constraint as it moderates from the higher levels achieved in FY23. This trend will be in line with easing nominal GDP growth in the wake of global slowdown. Thus to support quality spending, we estimate gross borrowing at Rs 16.0-17 lakh crore. 10Y G-Sec bond yield is expected to trade between 7.5-7.60% on an average in FY24.

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

JSW STEEL

- Q3 EBITDA recovered ahead-of consensus expectations but net income was a miss on impact of higher net debt
- We cut FY23-FY25 PAT by 47-12% baking in higher net debt impact and somewhat slower margin stabilisation over FY24
- TP raised to Rs 715 (vs. Rs 650) on rollover of valuation base to FY25; maintain HOLD

Click here **for the full report.**

SBI CARD

- Q3 PAT missed our estimate by 8% due to increased funding costs and high operating expenses
- Card spends at Rs 688bn the highest ever; gross receivables driven by EMIs with revolver share muted at 24%
- We cut FY23-FY25 EPS 3-9% and roll over to a TP of Rs 1,034 (vs. Rs 1,139) set at a lower 29x FY25E P/E (vs. 36x); maintain BUY

Click here **for the full report.**

AMBER ENTERPRISES

- Q3 topline grew 38% YoY but EBITDA margin disappoints at 5.8% (6.2% est.), dragging PAT well below expectations
- Capex guided to normalise to Rs 2.5bn from FY24 after spends in excess of Rs 6bn in FY23
- We cut FY23/FY24 EPS by 26%/10% on margin underperformance; TP unchanged at Rs 2,100 post rollover – retain HOLD

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SIEMENS INDIA

- Well positioned to benefit from emerging opportunities in digitalisation and sustainable solutions
- Mobility division seeing a resurgence due to rail capex with new 9000HP locomotive order a feather in its cap; C&S Electric turns a corner
- Balance sheet robust with net cash of Rs 64bn. SIEM remains one of our preferred capex plays; maintain BUY, TP Rs 3,500

Click here **for the full report.**

KEI INDUSTRIES

- Strong performance in cables aids Q3 topline growth of 14% YoY; EHV drag transient
- Sustained EBITDA margin trajectory amid volatile commodity environment; 11% guidance reiterated for FY24
- FY23/FY24 EPS raised slightly by ~2%; on rollover, our TP stays at Rs 1,900 – retain BUY

Click here for the full report.

FY24 BUDGET PREVIEW

24 January 2023

Balance between populism and consolidation

Sonal Badhan
Economist

Despite this being last full budget before the elections, budget for FY24 is unlikely to be a populist one. Government is expected to remain committed to its fiscal glide path announced in the budget for FY22 (<4.5% deficit by FY26), and aim to reduce the fiscal deficit ratio next year by 50 -75 bps to around 5.75%. Working within this framework, central government will try to balance task of providing social protection for the weaker section of the society, boost disposable income and give private investment and state capex a nudge. Revenue growth will also act as a constraint as it moderates from the higher levels achieved in FY23. This trend will be in line with easing nominal GDP growth in the wake of global slowdown. Thus to support quality spending, we estimate gross borrowing at Rs 16.0-17 lakh crore. 10Y G-Sec bond yield is expected to trade between 7.5-7.60% on an average in FY24.

Expectations from FY24 Budget

Balance between populism and consolidation

The latest budget presentation for 2023-24 (FY24) will the last full budget that the government presents before the general elections of 2024. Thus, while it will be tempting for the government to announce populist measures, it will also have to embark further on the path of fiscal consolidation. In the budget for 2021-22, FM had announced that fiscal deficit will be brought under 4.5% by 2025-26. In order to meet this commitment, deficit will have to be brought down by 50-100bps in the upcoming fiscal year, from the level achieved in FY23RE. Moderation in nominal GDP in FY24, will further add to strain. At the same time there are several expectations from different sectors which can be addressed by the Budget. We give here our expectations, which have been placed forth keeping in mind the practical side of fiscal space that will be available.

Key themes: Steering consumption and investment

Keeping in view the impending slowdown in CY23, government through its budget will aim to give both consumption and investment a nudge. To boost consumption, government is likely to

- Increase the limit under standard deductions under the income tax act.
- Provisions under capital gain tax may also get simplified. Simplification of provisions to calculate capital gain tax and increase in non-taxable limit on equity LTCG from Rs 1 lakh to Rs 2 lakh, may also be considered in the budget for FY24.
- Some tweaking of income tax slabs may be expected.
- Exemption limit for interest home loans to be increased to provide a push to housing.

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HOLD
TP: Rs 715 | ∀ 1%

JSW STEEL | Metals & Mining | 24 January 2023

Exciting growth but unfavourable risk-reward; maintain HOLD

- **Q3 EBITDA recovered ahead-of consensus expectations but net income was a miss on impact of higher net debt**
- **We cut FY23-FY25 PAT by 47-12% baking in higher net debt impact and somewhat slower margin stabilisation over FY24**
- **TP raised to Rs 715 (vs. Rs 650) on rollover of valuation base to FY25; maintain HOLD**

Kirtan Mehta, CFA
research@bobcaps.in

Q3 EBITDA recovers modestly: JSTL recovered from a sharp decline seen in Q2 with standalone operations and BPSL clocking adj. EBITDA/t of Rs 10.1k and Rs 7.3k respectively in Q3FY23. Despite EBITDA reviving, net income was weaker due to higher financing costs driven by increased net debt and a rise in benchmark interest rate.

Margin to stabilise in FY24: Regional steel prices have revived as hopes of recovery in China have brought Indian steel prices on par with landed international rates. We expect Chinese activity levels to recover past the New Year holidays supported by more proactive government policies, reducing the drag on Chinese steel margins. We do note that margin upside beyond the mid-cycle level is capped given surplus capacity in the Chinese market post a sharp demand decline in CY22.

Estimates reduced: We lower our FY23/FY24/FY25 EBITDA estimates for JSTL by 13%/11%/5% assuming slower stabilisation of EBITDA margin to mid-cycle level and slower ramp-up of expansion projects, particularly in FY25. We cut our net income forecasts by 47%/22%/12% to reflect the impact of higher net debt.

TP raised to Rs 715 from Rs 650: On rolling valuations over to FY25, our TP rises to Rs 715 (from Rs 650) based on an unchanged target multiple of 6x FY25E EV/EBITDA. We believe our FY25 estimates are generous on volumes and margins. We account for 50% utilisation from expansion projects (5mtpa Vijayanagar and 1.5mtpa BPSL) targeted for completion by FY24. We also factor in EBITDA margin at Rs 13.5k/t which is close to the mid-cycle level for JSTL and can be considered generous at this point in the cycle. Our target multiple of 6x is in line with the historical trading range of 5.9-6.2x over the past 5Y-10Y period, reflecting the aggressive growth on the anvil.

Maintain HOLD: Despite optimistic estimates and a target multiple in-line with the historical trading range, our target price yields a 1% downside. Given the sharp rise in net debt after a downturn in the steel cycle in H1FY23, JSTL is more vulnerable than peers to any change in steel cycle outlook. We find risk-reward unfavourable at this juncture and thus maintain HOLD.

Key changes

Target	Rating
▲	◄►

Ticker/Price	JSTL IN/Rs 722
Market cap	US$ 21.4bn
Free float	40%
3M ADV	US$ 19.4mn
52wk high/low	Rs 790/Rs 520
Promoter/FPI/DII	60%/11%/9%

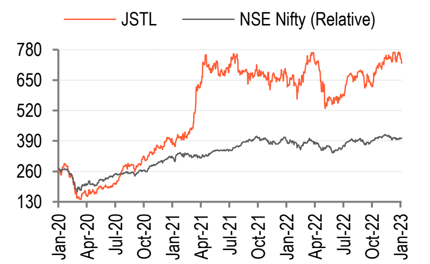
Source: NSE | Price as of 24 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,464	1,604	1,589
EBITDA (Rs mn)	390	197	325
Adj. net profit (Rs mn)	197	39	135
Adj. EPS (Rs)	81.7	16.2	55.9
Consensus EPS (Rs)	81.7	18.3	57.1
Adj. ROAE (%)	35.0	5.7	17.8
Adj. P/E (x)	8.8	44.6	12.9
EV/EBITDA (x)	3.0	5.9	3.5
Adj. EPS growth (%)	149.6	(80.2)	245.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,034 | ⮝ 35%

SBI CARD | NBFC | 25 January 2023

Higher costs continue to dent profitability

- **Q3 PAT missed our estimate by 8% due to increased funding costs and high operating expenses**
- **Card spends at Rs 688bn the highest ever; gross receivables driven by EMIs with revolver share muted at 24%**
- **We cut FY23-FY25 EPS 3-9% and roll over to a TP of Rs 1,034 (vs. Rs 1,139) set at a lower 29x FY25E P/E (vs. 36x); maintain BUY**

Mohit Mangal
research@bobcaps.in

PAT disappoints: SBI Card's Q3FY23 net profit rose 32% YoY (-3% QoQ) to Rs 5.1bn but was 8% below our estimate primarily due to (i) a rise in operating expenses by 15% YoY (8% QoQ) to Rs 19.7bn (3% above est.) due to spending on new client acquisition and higher corporate spends, and (ii) an increase in cost of funds by 68% YoY (26% QoQ) to Rs 4.6bn (5% above est.), with guidance for a further increase in Q4. We, accordingly, lower net profit estimates by 3-9% for FY23-FY25 to Rs 34bn.

Corporate spends gain traction; card addition robust: SBI Card's Q3 credit card spends hit a peak of Rs 688bn (Rs 654bn est.), rising 24% YoY and 10% QoQ, boosted by festive and travel season sales. Corporate spend grew 25% QoQ (10% YoY) with a share of 21% vs. 18%. We revise card spends upwards by 4% to Rs 2.5tn/Rs 3.0tn/Rs 3.5tn for FY23/FY24/FY25. The company's cards in force grew 21% YoY to 15.9mn with new account additions up 62%.

Gross receivables soar; revolver accounts muted: Gross receivables rose 33% YoY to Rs 386bn in Q3, with revolvers growing 18%, EMI 49% and transactors 36%. Revolver share was stable QoQ at 24% while EMI grew from 35% to 37%. NII at Rs 11.4bn was 2% below our estimate, but management indicated that pricing of newer EMI loans has already been changed to counter the cost-of-fund increase. We believe NIM will remain under pressure and forecast a range of 12-13% over FY23-FY25, much lower than the 15-16% levels enjoyed a few years ago.

Asset quality strong: GNPA/NNPA were stable at 2.2%/0.8% in Q3, and we expect levels of <3%/~1% over FY23-FY25. Credit cost declined from 6.4% in Q2 to 5.8% as ECL (expected credit losses) remained below pre-Covid levels. We continue to bake in credit cost of ~6% over FY23-FY25.

Maintain BUY: We cut our FY23-FY25 EPS estimates by 3-9% based on the Q3 results and reset to a lower target P/E of 29x (40% below the long-term mean) from 36x, as the spike in cost of funds and operating expenses clouds the margin outlook. Rolling valuations over to FY25E, we have a revised TP of Rs 1,034 (vs. Rs 1,139) – retain BUY for a potential upside of 35%.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SBICARD IN/Rs 767
Market cap	US$ 8.9bn
Free float	31%
3M ADV	US$ 12.3mn
52wk high/low	Rs 1,029/Rs 656
Promoter/FPI/DII	69%/9%/17%

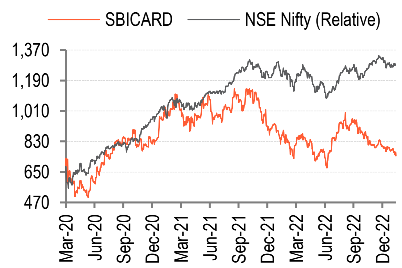
Source: NSE | Price as of 23 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Net interest income (Rs	38,387	45,287	58,298
NII growth (%)	(1.7)	18.0	28.7
Adj. net profit (Rs mn)	16,161	22,061	28,101
EPS (Rs)	17.0	23.2	29.6
Consensus EPS (Rs)	17.0	24.3	30.8
P/E (x)	43.8	32.1	25.2
P/BV (x)	9.1	7.3	5.8
ROA (%)	5.2	5.6	5.8
ROE (%)	23.0	25.3	25.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 2,100 | ⮝ 3%

AMBER ENTERPRISES | Consumer Durables | 24 January 2023

Strong topline but margins remain muted

- **Q3 topline grew 38% YoY but EBITDA margin disappoints at 5.8% (6.2% est.), dragging PAT well below expectations**
- **Capex guided to normalise to Rs 2.5bn from FY24 after spends in excess of Rs 6bn in FY23**
- **We cut FY23/FY24 EPS by 26%/10% on margin underperformance; TP unchanged at Rs 2,100 post rollover – retain HOLD**

Vinod Chari | Nilesh Patil
Tanay Rasal
research@bobcaps.in

Mixed performance: Amber reported strong Q3FY23 topline growth of 38% YoY to Rs 13.5bn, ahead of our estimate (Rs 11.7bn). However, EBITDA margin and adj. PAT disappointed at 5.8% and Rs 151mn vs. our forecasts of 6.2% and Rs 251mn respectively. While the standalone room air conditioner (RAC) and component business led the topline, better profitability at subsidiaries propped up operational performance for the quarter.

Ancillary business taking centerstage: Amber is focused on diversifying toward the electronics and motors division given its healthy growth prospects as well as the structural downshift in the core RAC business due to increased insourcing by OEMs. The company has acquired two marquee clients for its electronics business in its newer verticals of hearables and wearables. Further, it has started providing PCBA support for the BLDC motors used in fans. Management anticipates 50% revenue growth in electronics and 30-40% in the motors business in FY24.

Capex drive to normalise in FY24E: Amber expects capex to exceed Rs 6bn for FY23 with the addition of four new facilities along with the Sri City plant. Thereafter, capex is guided to moderate to ~Rs 2.5bn in FY24. The intensive capex has resulted in increased debt, elevated finance cost and higher depreciation, which is visible in the quarter. Net debt stood at Rs 9bn as at end-Q3FY23, and management aims to bring it down to Rs 4bn-4.5bn by FY23-end.

Retain HOLD: A thrust on diversifying away from the core RAC business toward the high-growth electronics and motors segments will help Amber mitigate the structural overhang arising from insourcing of AC production by OEMs. That said, delayed margin recovery leads us to cut our FY23/FY24 EPS estimates by 26%/10% and reiterate our HOLD rating. We maintain our TP of Rs 2,100 as we roll valuations over to Dec'24E, valuing the stock at an unchanged P/E multiple of 27x – a 50% discount to the 3Y average on 2Y forward basis.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	AMBER IN/Rs 2,043
Market cap	US$ 843.2mn
Free float	60%
3M ADV	US$ 1.7mn
52wk high/low	Rs 4,026/Rs 1,843
Promoter/FPI/DII	40%/27%/12%

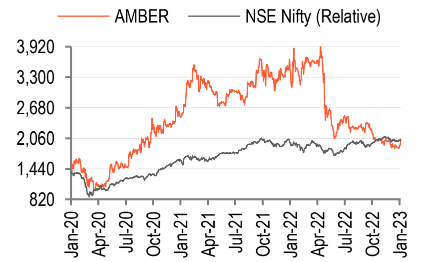
Source: NSE | Price as of 24 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	42,064	56,605	73,303
EBITDA (Rs mn)	2,754	3,428	4,966
Adj. net profit (Rs mn)	1,113	1,281	1,992
Adj. EPS (Rs)	33.0	38.0	59.1
Consensus EPS (Rs)	33.0	53.7	83.0
Adj. ROAE (%)	6.7	7.1	10.2
Adj. P/E (x)	61.8	53.7	34.6
EV/EBITDA (x)	25.0	20.1	13.9
Adj. EPS growth (%)	33.7	15.1	55.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 3,500 | 14%

SIEMENS INDIA | Capital Goods | 24 January 2023

Annual report highlights: Primed for accelerated growth

- **Well positioned to benefit from emerging opportunities in digitalisation and sustainable solutions**
- **Mobility division seeing a resurgence due to rail capex with new 9000HP locomotive order a feather in its cap; C&S Electric turns a corner**
- **Balance sheet robust with net cash of Rs 64bn. SIEM remains one of our preferred capex plays; maintain BUY, TP Rs 3,500**

Vinod Chari | Tanay Rasal
Nilesh Patil
research@bobcaps.in

Key takeaways from our analysis of SIEM's FY22 (Y/E Sep) annual report:

Poised for accelerated growth: We believe SIEM is strategically positioned to harness the boom in demand for digitalisation and sustainable solutions. The company, having undergone a decade of consolidation, is now in a phase of expedited expansion. Its mobility division, which had been underperforming, has seen a resurgence due to the renewed focus on rail capex in the country. Per management, the smart infrastructure and digital industries will be propelled by cutting-edge enterprises, with the energy sector also expected to do well this year.

C&S Electric synergies to kick in: The acquisition of C&S Electric, primarily aimed at tapping the market for low-voltage products in India and overseas, is gaining momentum. C&S revenue stood at Rs 12.2bn in FY22 (vs. Rs 12.4bn in FY19 pre-acquisition), while PAT stood at Rs 163mn (vs. Rs 527mn). Management acknowledged that integration costs have temporarily hurt margins but remains optimistic on eventual normalisation as a result of synergies and efficiencies that will be realised in future.

Xcelerator a complement to MindSphere: SIEM has unveiled Xcelerator, a new open digital business platform that complements its existing MindSphere. Aimed at supporting small & medium enterprises, Xcelerator looks to accelerate digital transformation by providing scalability, design flexibility and integration capabilities.

Balance sheet steady: Cash and cash equivalents increased to Rs 64bn, up 30% YoY, with net debt/equity at -0.3x. ROIC/ROE for the year stood at 12%/11%.

Maintain BUY: SIEM remains the best play on upcoming smart capex with a broad portfolio mix that not only caters to sectors evolving toward Industry 4.0, but also harnesses the green energy transition theme with its stronghold in building and grid electrification. We pencil in a revenue/EBITDA/PAT CAGR of 20%/28%/31% over FY22-FY24 and maintain BUY with a TP of Rs 3,500, valuing the stock at 57x Sep'24E EPS, 25% premium to the 5Y mean.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SIEM IN/Rs 3,059
Market cap	US$ 13.4bn
Free float	25%
3M ADV	US$ 14.1mn
52wk high/low	Rs 3,139/Rs 2,150
Promoter/FPI/DII	75%/5%/10%

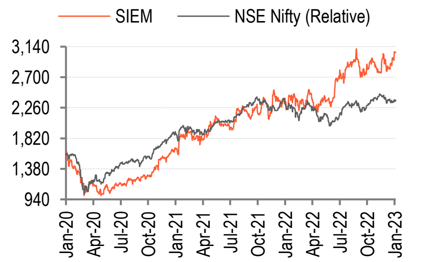
Source: NSE | Price as of 23 Jan 2023

Key financials

Y/E 30 Sep	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,61,378	1,96,656	2,32,550
EBITDA (Rs mn)	17,573	23,402	28,847
Adj. net profit (Rs mn)	12,619	17,228	21,764
Adj. EPS (Rs)	35.4	48.4	61.1
Consensus EPS (Rs)	35.4	47.3	61.9
Adj. ROAE (%)	11.5	14.1	16.0
Adj. P/E (x)	86.3	63.2	50.0
EV/EBITDA (x)	64.9	49.3	40.2
Adj. EPS growth (%)	22.5	36.5	26.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 1,900 | ⮝ 25%

KEI INDUSTRIES | Consumer Durables | 24 January 2023

Upbeat numbers

- **Strong performance in cables aids Q3 topline growth of 14% YoY; EHV drag transient**
- **Sustained EBITDA margin trajectory amid volatile commodity environment; 11% guidance reiterated for FY24**
- **FY23/FY24 EPS raised slightly by ~2%; on rollover, our TP stays at Rs 1,900 – retain BUY**

Vinod Chari | Nilesh Patil
Tanay Rasal
research@bobcaps.in

Growth momentum continues: KEII reported a good Q3FY23 print, with 14% YoY topline growth to Rs 17.8bn, ahead of our estimate of Rs 16.7bn, led by strong 20% volume growth in the cables business – a major revenue driver. The stainless-steel wires and EPC businesses posted YoY revenue contraction of 14% and 8% respectively. Pending orders rose 14% QoQ to Rs 3.4bn, and management is thus targeting healthy revenue growth of 18-20% in FY23.

Margins maintained near guided levels: At 10-10.2%, KEII's EBITDA margin trajectory has remained stable in FY23 YTD and close to guided levels of 10.5-11% despite inflationary pressures and a lag in commodity price pass-along. In Q3, the EPC business recorded a strong EBIT margin of 13% while the cables division was largely stable. Management foresees no immediate impact of ongoing raw material cost volatility and expects channel inventory to remain at normal levels.

EHV drag transient in nature: KEII expects to close FY23 with extra-high-voltage (EHV) product sales of Rs 3.5bn-4bn vs. Rs 5.1bn in FY22, due to project delays stemming from right-of-way issues. Management is, however, confident of scaling past Rs 5bn in FY24 based on the current order book. The company foresees no medium-term impact from the entry of industry peer – Polycab - into the EHV segment due to a long gestation period for the business, and plans to adhere to its strategy of bidding for projects with reasonable margins over chasing market share.

Maintain BUY: We see structural growth drivers for KEII as the margin-accretive retail business scales up and as its core cables and EPC businesses benefit from sectoral tailwinds in the form of increased private and public capex. We raise our FY23/FY24 EPS estimates by ~2% post Q3, but cut EBITDA margin forecasts by 80bps/20bps. On rolling valuations forward to Dec'24E, our TP remains at Rs 1,900, based on 25x EPS – a 9% premium over the recent 5Y high.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	KEII IN/Rs 1,514
Market cap	US$ 1.7bn
Free float	61%
3M ADV	US$ 4.0mn
52wk high/low	Rs 1,662/Rs 951
Promoter/FPI/DII	37%/27%/19%

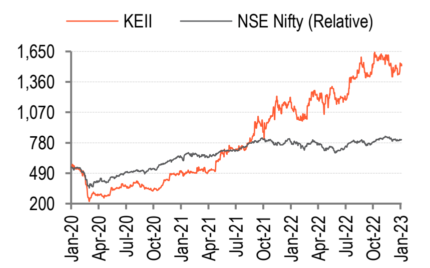
Source: NSE | Price as of 24 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	57,266	67,599	77,902
EBITDA (Rs mn)	5,887	6,899	9,325
Adj. net profit (Rs mn)	3,760	4,387	5,829
Adj. EPS (Rs)	41.5	48.4	64.3
Consensus EPS (Rs)	41.5	51.8	64.9
Adj. ROAE (%)	19.2	18.7	20.6
Adj. P/E (x)	36.5	31.3	23.6
EV/EBITDA (x)	23.2	19.9	15.1
Adj. EPS growth (%)	37.6	16.7	32.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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