

Rating: Avoid

Issue Offer

Fresh Issue of 51,99,307 equity shares upto INR 300cr and OFS of 156,02,946 shares by Promoters group taking the total issue size at INR 1,200 cr

Issue Summary

Price Band (INR)	560-577
Face Value (INR)	10
Implied Market Cap (INR Cr)	4,801
Market Lot	25
Issue Opens on	Oct,29, 2021
Issue Close on	Nov,02, 2021
No. of share pre-issue	780,14,996
No. of share post issue	832,14,303
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	75
NIB Portion	15
Retail Portion	10

Book Running Lead Managers

Axis Capital, CLSA India

ICICI Securities, Nomura Financial

Registrar

KFin Technologies Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	100.00%	75.00%
Public & Others	-	25.00%

Objects of the issue

- Augmenting Bank's Tier – 1 capital base to meet its future capital requirements.
- To meet the expenses in relation to the offer

Fino Payments Bank Ltd (Fino Bank) was incorporated in 2017, Fino Payments is a growing fintech company offering a wide portfolio of digital financial products & services in India. The bank offers products & services throughout pan India and having operational presence to cover more than 90% districts as on 31st September, 2021. Its majority products and services includes, 1) CASA 2) Facilitating domestic remittances 3) Cash Management Services 4) Issuance of debit card and related transactions 5) Micro ATM and AePS 6) Banking Functionality

The bank operates an asset light business model, that is underpinned by their phygital model. Phygital model are combination of physical and digital, the model relies on their merchant network and other participants.

Fastest growing Fintech player with strong leadership position in India: The bank established leadership across various products, robust revenue growth and profitability. Its Micro-ATM market share accounts for 55%, Cash Management Services grew at a 273% CAGR in throughput, CASA accounts grown 3.1x since 2019 enables customer centric offerings. The annual throughput INR 1,329 bn, 435 million transactions and 2.6 million CASA accounts enables them scale across segments.

Difficult to replace DTP Framework: Fino Bank's unique DTP framework enables them to serve target market efficiently and is designed to achieve improvements on three key challenges associated with serving such target market, being: Scale, Service, Sustainability and seamless interplay between Distribution, Technology and Partnerships.

Asset Light and Scalable Model: The asset light model has leveraging pan India distribution network and merchants local relationships to cross sell third party products.

Business model has operating leverage: The high degree of operating leverage in the business model driven by network effect. Revenue per unit of operating cost is increasing over the years, The network effect drives to incremental revenue. Overall, The operating leverage playing out in the business model.

Technology driven omni-channel offerings for customers: The core technology focuses on transaction process automation, analytics, video KYC and CBS. The technology enablers helps to identify merchant locations, AI & ML based fraud risk identifications, virtual assistants and virtual RMs and merchant productivity analysis. The offerings are served through omni channels; Fino branch, Fino merchant points, Fino Bpay, Fino CSP; these are builds trust, transact at convenience and enables to reach doorstep and widespread.

Valuation and View: At the upper band of INR 577, the issue has been valued at 31.9x FY21 P/BV. Fino Payments Bank is a rural area focused business model with wide range of products & services, Fastest growing CASA accounts, Robust growth in throughput and increasing transactions, Asset light and Scalable business model, Leveraging market position, Experienced management team and deepen the customer sourcing capabilities would lead the profitability in going forward. However, current valuation seems to be on expensive side and competitive intensity is higher in the industry as competition comes from Fintechs, NBFCs. Also, sustainability of margins in the future is a challenge. Thus, we recommend investor to Avoid this issue. Stock can be looked at post listing at lower level.

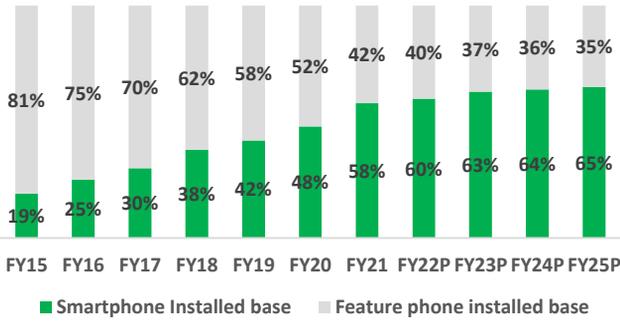
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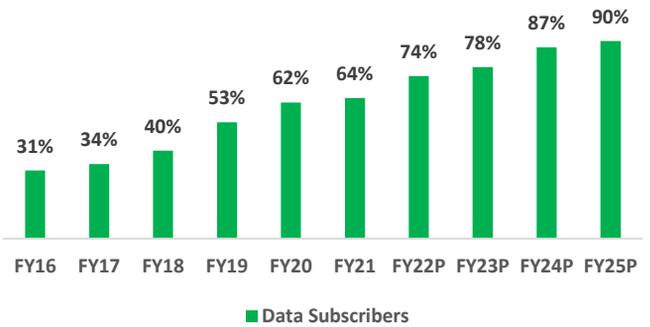
Industry Overview

Mobile & Internet Penetration: Higher mobile penetration, improved connectivity and faster and cheaper data speed, supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one.

Data-savvy and younger users to drive adoption of smartphones

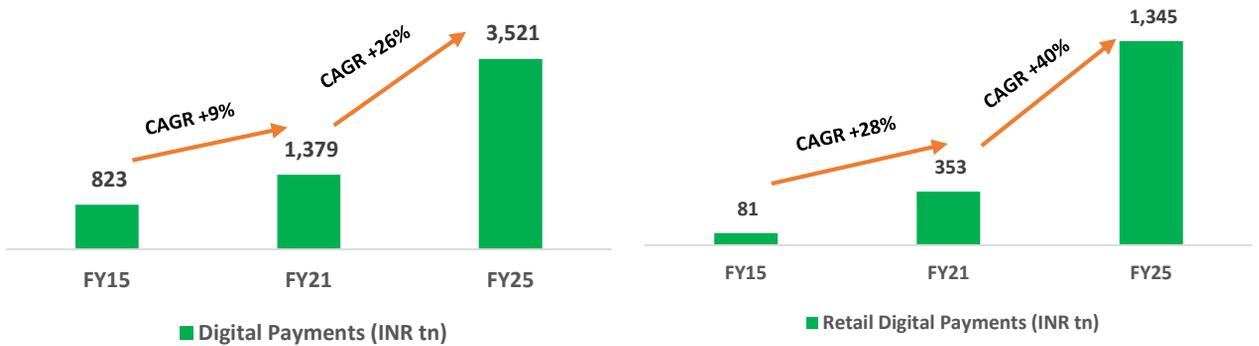


Data subscribers as a proportion of wireless subscribers to increase significantly through FY25



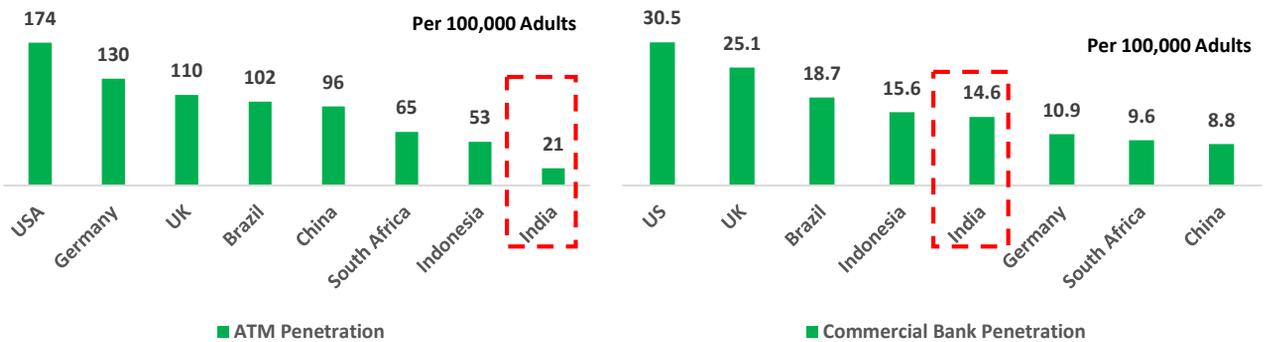
Source: Crisil, IRAI, Arianth Capital Research

Growth in Digital Payments: The digital payments grew at a 9% CAGR to INR 1,379 trillions during the period of FY15-FY21. The digital payments are expected to grow at CAGR 26% to INR 3,521 trillions between forecasted years of FY21-FY25. The retail digital payments grew at a 28% CAGR to INR 353 trillions during the period of FY15-FY21. The retail digital payments are expected to grow at CAGR 40% to INR 1,345 trillions between forecasted years of FY21-FY25. The growth in digital transactions mainly attributed to rise in smart phones and mobile internet adoption, convenience offered by digital payments, and ubiquitous availability of payment solutions.



Source: Crisil, IRAI, Arianth Capital Research

Commercial Bank & ATM Penetration: India has lower commercial bank branches and ATM penetration compared to other countries, indicating huge room for financial inclusion and banking services penetration. As of FY20, India has 14.6 branches and 21 ATMs for every 100,000 adults, which is relatively lower than other developing and developed countries.



Source: World Bank, RBI, RHP Arianth Capital Research

Business Overview:

Fino Payments Bank Ltd (Fino Bank) was incorporated in 2017, Fino Payments is a growing fintech company offering a wide portfolio of digital financial products & services in India. The bank offers products & services throughout pan India and having operational presence to cover more than 90% districts as on 31st September, 2021. its majority products and services includes,

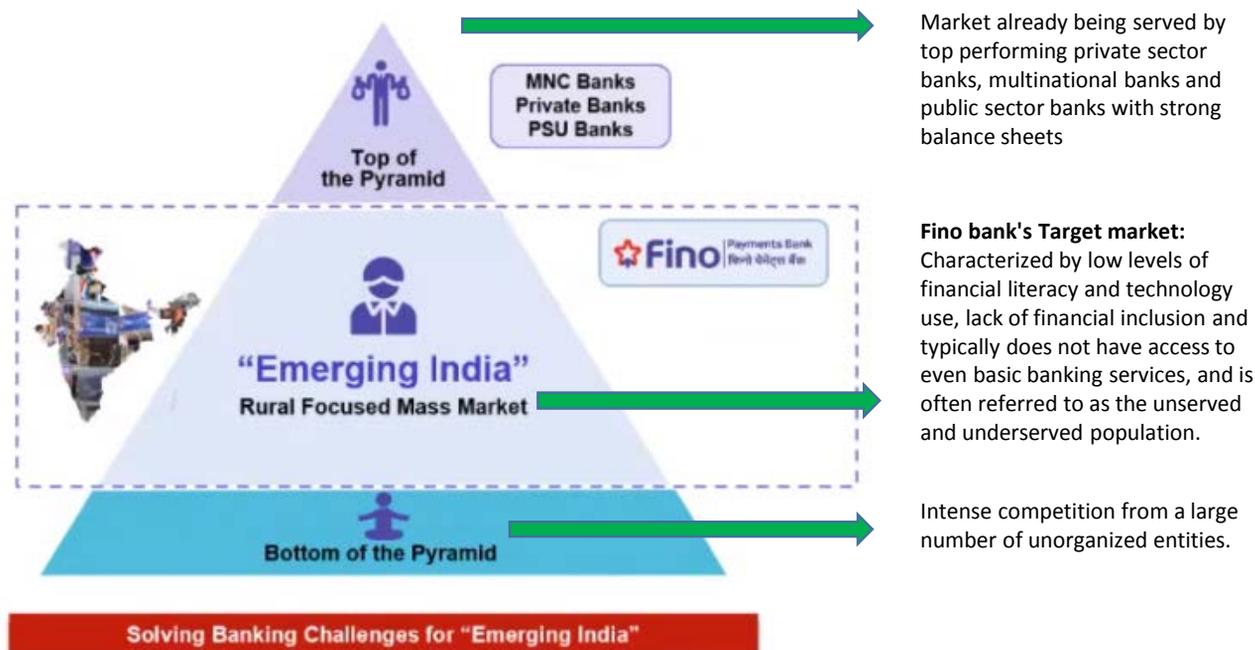
- 1) CASA – Current Accounts and Savings Accounts
- 2) Facilitating domestic remittances
- 3) CMS – Cash Management Services
- 4) Issuance of debit card and related transactions.
- 5) Micro ATM and AePS (Aadhaar enabled Payment System)
- 6) Banking Functionality

The bank operates an asset light business model, that is underpinned by their phygital model. Phygital model are combination of physical and digital, the model relies on their merchant network and other participants.

The payments bank relies on fees and commissions from their merchant network and strategic commercial relationships. Each merchant serves the banking and financial needs of its community, which in turn forms the backbone of assisted-digital ecosystem, referred to as phygital delivery model. The merchant's use of technology and use of analytics on the data that they capture enhances the merchant's ability to cross sell the third party products that also offer to existing customers. The increasing potential revenue and opportunity to further customize products and services offering; Such a merchant-led distribution model requires minimal capital expenditure cost from them, because the on-boarding and setup capital expenditure costs are borne by the merchant. So, its allow for operating leverage and efficient expansion in a timely manner. Through the phygital delivery model, The merchants on-board customers and facilitate transactions, ensuring network grows and products and services are more accessible to a broader range of customers throughout India, giving them what they believe to be is a significant advantage compared to competitors.

Fino bank is looking to target a population of India which has low levels of financial literacy and technology use and typically does not have access to even basic banking services. Fino bank was ranked third among banks in facilitating digital transactions in India, according to Ministry of Electronics & Information Technology in 2020. The Fino bank has largest network of micro-ATMs and the third-highest deposit growth rate in FY2021.

Fino Banks Target Market:



Source: RHP, Company Reports, Arihant Capital Research

Business Overview:

Products & Services:

Products & Services	Offerings	Revenue Stream	Revenue Model
CASA	The Bank offers 2 type of current account and 6 types of savings accounts. CASA accounts grow 3.1x since FY19 and CASA accounts stood at 2.6mn and 75% of CASA accounts were active. The bank earns largely subscription based or non-maintenance of MAB fee, fund transfer and cash transaction fees and other miscellaneous fees.	Account Opening, Renewal and Financial Transactions by customers	Subscription/Transaction based
BC Banking	Banking products and services on behalf of other banks. The banks gets commission on each transaction. The bank has ~17,430 active BC's across india and derive revenue through commissions on each transaction they process.	BC onboarding fee	Subscription based
Remittance	Remittance predominantly refers to domestic transfers by migrant workers who are sending money from the location of their employment, to their homes which are often in other states/ regions. The bank operates own API channel and the bank gets commission on percentage of transaction value.	Money Transfer	Transaction based
Micro Atm & AePS	Micro-ATMs are handheld terminals that typically require a card to be swiped or dipped by the customer, rely on mobile phone / internet connections and are most often used in geographies where it is not practical for the relevant bank to locate a physical bank branch and/ or facilitate door-stop mobile banking by BCs. The micro-ATM has a maximum limit of ₹10,000. AePS uses Aadhaar biometric authentication through fingerprint or demographic information, linked to the Aadhaar database as the basis for a transaction. Customers primarily use AePS to deposit cash, withdraw cash, check account balances and Aadhaar to Aadhaar remittances that are interbank or intra bank in nature.	Merchant Signup/Cash withdrawal	Subscription/Transaction based
CMS	The bank provides cash collection and payment services. The bank earns commissions on throughput volumes.	B2B services to NBFC's and others.	Transaction based
Third-party cross sell	The banks sells third-party products such as gold loan, Insurance products, bill payments, FASTags etc. The banks earns commissions to sell third-party products.	Commissions	-

Source: RHP, Company Reports, Aриhant Capital Markets

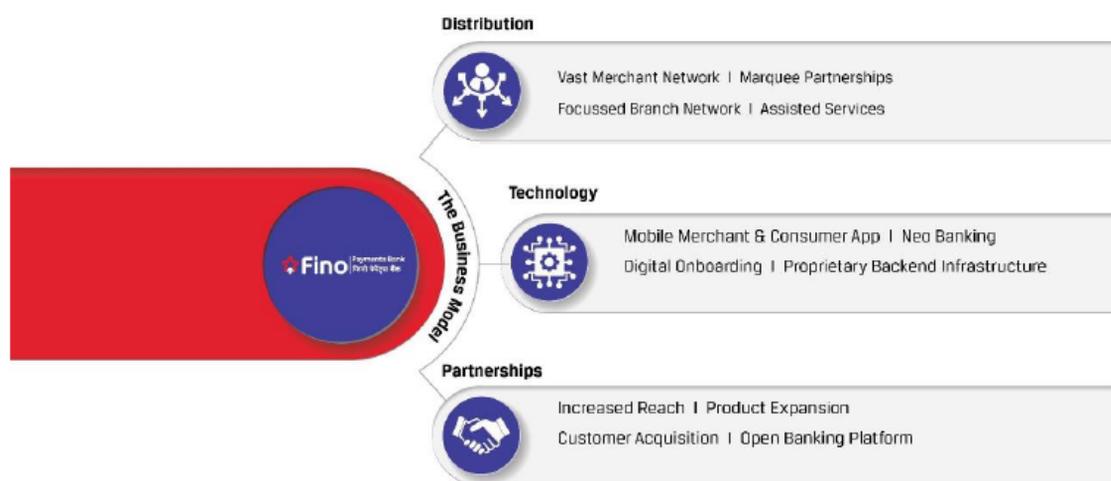


Source: RHP, Company Reports, Aриhant Capital Research

Key Strengths

Difficult to replace DTP Framework: Fino Bank's unique DTP framework enables them to serve target market efficiently and is designed to achieve improvements on three key challenges associated with serving such target market, being: Scale, Service, Sustainability and seamless interplay between Distribution, Technology and Partnerships.

- 1) **Scale:** The significant investment of time and capital required to develop and deploy the infrastructure needed to establish the necessary geographic reach;
- 2) **Service:** The high levels of upfront and continued customer service required to build and maintain trust among all of the communities in which they operate and target.
- 3) **sustainability:** The customized range of products required to meet the needs of their target market. This framework creates a network effect and facilitates a seamless interplay between each of distribution, technology and partnerships. with respect to;
 - 1) **Distribution:** Having access to a vast and established merchant network, the ability to draw upon their strong relationships and trust within the communities, a dedicated and focused branch network and large BC network.
 - 2) **Technology:** Their phygital model for delivering products, dedicated mobile banking applications for merchants and customers, a neo banking mindset, digital on-boarding, e-KYC, in-house technology expertise and culture of application-led innovation which includes proprietary technology.
 - 3) **Partnerships:** leveraging the increased reach of their strategic commercial relationships, product portfolio expansion opportunities, greater customer sourcing and leveraging the open banking regime via API.



Source: RHP, Company Reports, Arihant Capital Research

A Technology Focused Business Model with an Advanced Digital Platform: Fino bank's service and product design and efficient deployment are important factors for them, both of which they believe are demonstrated in Bpay app, the ease in which we on-board merchants through e-KYC, as well as Cash Bazaar initiative that assists in identifying merchant locations and directing customers to the nearest merchant outlet. The bank is equipped with reporting process automation based processes at the back-end, SAS dashboards for analytics and demand forecasting, fraud risk management system for fraud detection, other security systems and a network of servers.

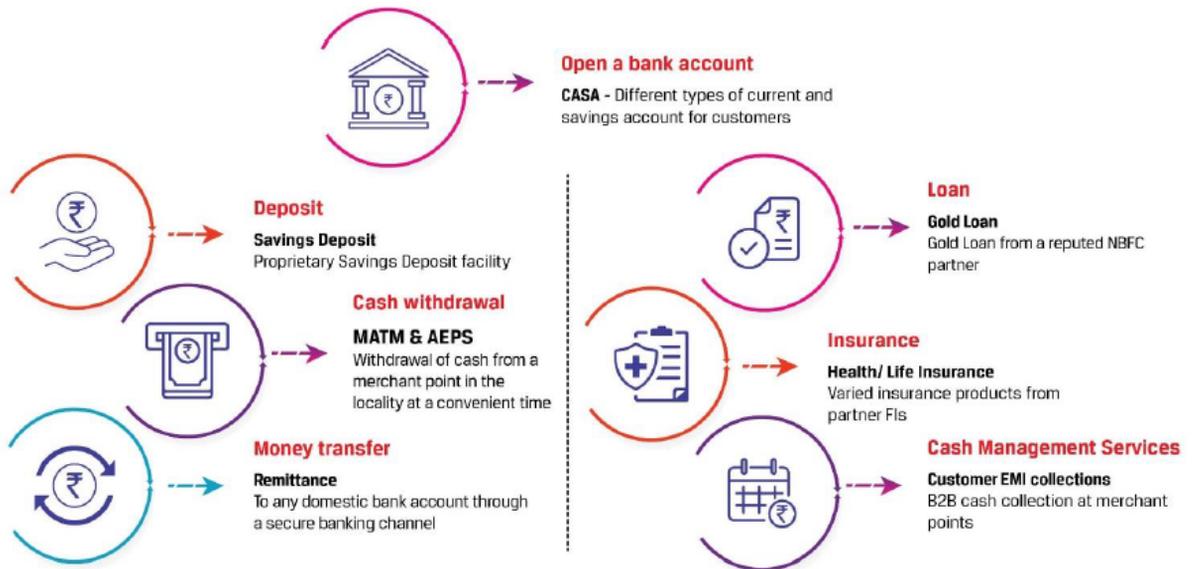
They also focused on providing a more intuitive and personalised experience both at the customer and merchant levels. For instance, they provide customers with the ability to originate their savings bank accounts through mobile application Fino BPay, which is a digital solution that utilizes the Unified Payments Interface (UPI) for secure, fast personal banking and merchant payments, among other functions and targets retail customers.

The requests made through Fino BPay, 9% and 8% were converted to savings bank account customers in FY21 and Q1FY22 respectively. Fino Mitra app serves as a one-stop-shop solution for merchants by providing banking and payments related services such as account opening whereby merchants can on-board CASA customers and navigate e-KYC requirements on behalf of bank.

Key Strengths

Customer Centricity and Innovation at the core of business: Fino bank places the customer at the centre, The products and services are designed and customized to meet the needs and requirements of customers and target market.

Some of Our Key Products and Services



Source: RHP, Arihant Capital Research

The following illustrates how customer knowledge is integral to product/service development:

- 1. Subscription CASA accounts:** Fino bank introduced this because many individuals in target market expressed concern about transaction-linked fees that are charged at the time of each transaction. Accordingly, the bank created a product that has no transaction-linked fees up to certain limit, but instead requires the customer to pay an annual fee.
- 2. Micro-ATMs:** The Fino bank deployed micro-ATMs (as opposed to ATMs) because cash remains extremely popular within the Indian economy and especially in rural India. Micro ATM setup cost around INR 4,000, while traditional ATM costs over INR 550K. Lower capital expenditure required as compared to ATMs, micro-ATMs are simpler to set up, have lower operating costs and have no requirement for cash top-up related logistics, They are able to more easily and effectively reach a greater number of people by deploying micro-ATMs than if we used the larger, more cumbersome and costly ATMs.
- 3. AePS IRIS technology:** Fino bank introduced this functionality because they initially observed high authentication failure rates using fingerprints, due to worn-out fingerprints or quality of capture at the time of transaction. In addition, the device required to conduct IRIS authentication is simpler to use for merchants and there is a lower risk of fraud compared to fingerprint scanners which are susceptible to clone prints.
- 4. Cash bazaar (Latlong):** Fino bank introduced Cash bazaar, so that individuals needing to use banking services could more easily locate and be directed to one of banks merchants, branches or CSPs.

An Asset Light and Scalable Business Model: Fino bank's merchant-led model is a capital light business strategy in respect of network expansion and except for referrals of third party loan providers, the bank do not offer any lending products and they do not hold credit risk for loans. In addition, their well established technology platform and consistent investment in further improvements, allows them to service a wide pool of customers and cater to their diversified requirements.

Fino bank's merchant network was 724,671 (comprising of 366,861 own merchants and 357,810 merchants on the open banking network via our API channel) as on 30th Jun, 2021, they leverage 17,430 BCs as on 30th Jun, 2021 to reach the underserved and unserved populations in hard to reach locations.

Key Strengths

Operational Experience and Expertise: The FINO brand being in existence for approximately 14 years and Mr. Gupta being a key employee of FINO, they benefit from his operational experience and expertise gained throughout that time. Their business model in particular is partly a product of and, a beneficiary of such experience. They now leverage this to better understand how the digitization of products and services can shape customer behaviour into the future and in conjunction with tech enabled processes and strong team, aim for operational excellence on a regular basis.

Socially inclusive model with positive social impact: The Fino bank business model and operations, as well as their mission and vision, benefit Indian society by bringing India's unserved and underserved population into the main stream banking system and accordingly, improving their access to financial products and services and in turn quality of life.

In delivering financial products & services they, also empower women. as part of Business Alliance Initiative, they have engaged with two state level rural livelihood missions to grow the number of women acting as merchants and BCs. As a result of such initiative, the number of female merchants has recently nearly doubled, increased to ~35,298 in Q1FY22 vs 18,191 in FY21.

Key Strategies

Leverage Market Position to Capture Industry Opportunities: They believe to increase their market position and capture industry opportunities by continuing to focus on competitive strengths and leveraging business model. They believe to continue expanding customer base by focusing on the large under-penetrated market represented by the target market, being the unserved and underserved population. They have substantial experience of operating in this market and have a deep understanding of customer's needs. They believe this combination of track record and customer knowledge positions them well to seize upon the significant opportunity for future growth.

Continued Innovation Leading to High Growth Products and Diversified Revenue Streams: The Fino bank operate in an industry that is continuously evolving, necessitating to innovate by improving technology platform, developing new products and/or exploring new distribution methodologies. The optimum use of well designed, cost-effective technology has significantly driven operations. In going forward, they aim to empower customers to access the most suitable products on their own, reduce operating costs and increase efficiencies.

They have identified and expect that CASA and micro-ATMs have high growth potential. They have 55% market share in micro ATM's. They are also actively exploring the potential of tie-ups with third party financial institutions such as Non-Banking Financial Companies (NBFCs) for referral credit products designed for customers, where bank will earn fees on such referrals. Currently, fino bank's third party referral credit products are only business based credit products offered to merchants. They believe that customers will increasingly use digital platforms, which they expect will lead us to direct customer engagement and improved margins.

Expand and Deepen the Customer Sourcing Capabilities: Fino bank had an operational presence in over 90% of districts as on 30th Sep, 2021. The bank acquired 696,513 new merchants across our network (including own and API channel merchants). The bank had a number of strategic relationships with businesses/organisations across the country, including with a State Road Transport Corporation (SRTC) where the bank introduced a near field communication (NFC) based contactless payments solutions for the mass transit system. With a goal to acquire more customers, The Fino bank intend to continue expanding network to drive deeper penetration and sustainable operations in these regions and communities, focusing on underserved and unserved individuals and micro businesses that have limited or no access to formal banking channels.

The Fino bank also intend to focus on increasing the adoption of CASA offering by customers as they believe this acts as a key customer sourcing gateway for certain of other products. The Fino bank expect that growth will come via further expansion of geographic footprint and deeper penetration in the regions they currently operate in.

Continued focus on use of technology to improve operating leverage: The Fino bank focus on and use of technology throughout business is a significant factor in improving operating leverage, as it allows to improve gross margins and limit variable costs. It plays a key role in ability to expand reach throughout India without incurring the relatively higher costs associated with traditional bricks and mortar branch presence.

The Fino bank made significant investments in technology infrastructure, though primarily in the early stages from which they are now benefiting. The Fino bank recorded capital expenditure INR 139.33 million, INR 228.68 million, INR 669.30 million and INR 224.97 million in FY19, FY20, FY21 and Q1FY22 respectively. The capital expenditure in connection with technology infrastructure, including core technology platform and in building brand new proprietary applications. The Fino bank intend to continue to improve operating leverage by focussing on use of technology and in particular in connection with the on-boarding and training of merchants and also to enhance hygital delivery model.

Key Risks

- The COVID-19 pandemic may continue to have certain adverse effects on business, operations, cash flows and financial condition and the continuing impacts of COVID-19 are unpredictable and could be significant. The extent to which it or the effect of outbreaks of any other severe communicable disease may continue to do so in the future, is uncertain and cannot be predicted.
- Fino bank undertake fee and commission-based activities and financial performance may be adversely affected by an inability to generate income from such activities.
- Fino bank rely extensively on information technology systems and any weakness, disruption or failure in such systems, or breach of data, could adversely affect operations and reputation. Further, Fino bank success depends on ability to innovate, upgrade and respond to new technological advances.
- Payment Banks in India, including Fino bank, are subject to stringent regulatory requirements and prudential norms and inability to comply with such laws, regulations and norms may have an adverse effect on business, results of operations, financial condition and cash flows.
- Negative cash flows in the future could adversely affect cash flow requirements, The ability to operate business and implement growth plans, thereby affecting financial performance.
- Fino bank have incurred losses in the FY19 and FY20 and cannot assure you that they may not incur any net loss in the future.
- The industry is very competitive and fino banks growth strategy depends on ability to compete effectively.

Peer Comparison

Payments Banks (FY2021)

Players	Deposits (in ₹ Cr)	Net worth (in ₹ Cr)	CRAR (%)	Branches~	Banking touchpoints (in million)
PayTM Payments Bank*	3,450	480	62.40%*	6	21.00#
India Post Payments Bank*	855	570	79.20%	650	0.14
Airtel Payments Bank*	596	320	90.20%*	31	0.50^
Fino Payments Bank	251	150	54.84%	54	0.72
Jio Payments Bank*	17	130	2.35%	9	-
NSDL Payments Bank*	7	140	230.00%	1	-

* Data is for FY20; ~ Data is for 9MFY21; ^ Data is for Q1FY22, #Includes in-store and online merchants.

Volume and Value of transactions and card issued

Players	Debit cards outstanding (in Cr)		Value of transaction at ATM & POS (INR Cr)		Volume of transaction at ATM & POS (in Cr)	
	Apr 2021 to Aug 2021	FY2021	Apr 2021 to Aug 2021	FY2021	Apr 2021 to Aug 2021	FY2021
PayTM Payments Bank	6.61	6.38	3,644	8,453	1.81	4.61
India Post Payments Bank	0.22	0.11	84	37	0.14	0.07
Airtel Payments Bank	0.2	0.17	170	269	0.18	0.45
Fino Payments Bank	0.29	0.23	1,181	1,712	0.44	0.69
NSDL Payments Bank	0.02	0.01	7	1	0.01	0.02

Source: RHP, Arianth Capital Research

Peer Comparison

Product wise comparison

Products	Fino Payments Bank	Airtel Payments Bank	India Post Payments Bank	PayTM Payments Bank	NSDL Payments Bank
Savings & Current A/C	✓	✓	✓	✓	✗
Sweep Account Facility	✓	✗	✓	✓	✗
Mobile Wallet	✓	✓	✗	✓	✓
Debit Card	✓	✓	✓	✓	✓
Payments	✓	✓	✓	✓	✓
CMS	✓	✓	✓	✗	✗
Insurance (third party cross sell)	✓	✓	✓	✗	✓
Doorstep Banking	✓	✓	✓	✓	✗
BC Business	✓	✗	✗	✗	✓

Source: RHP, Arianth Capital Research

Management

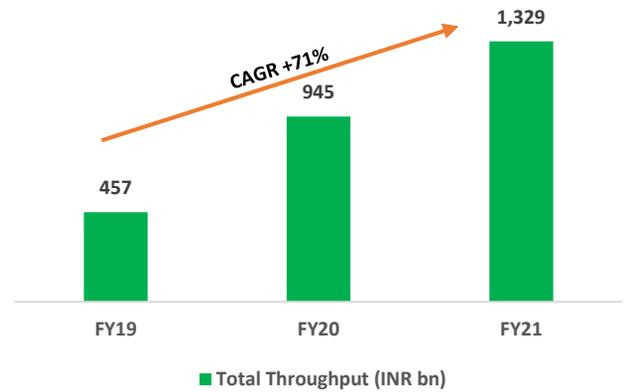
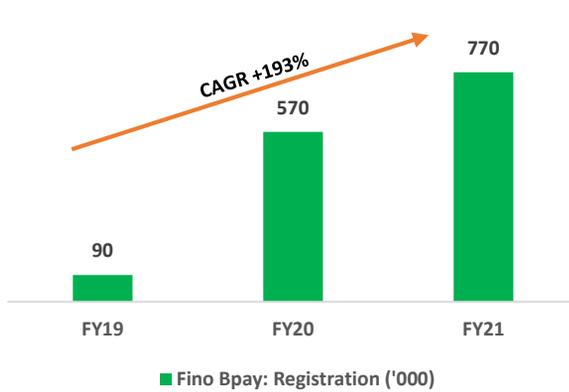
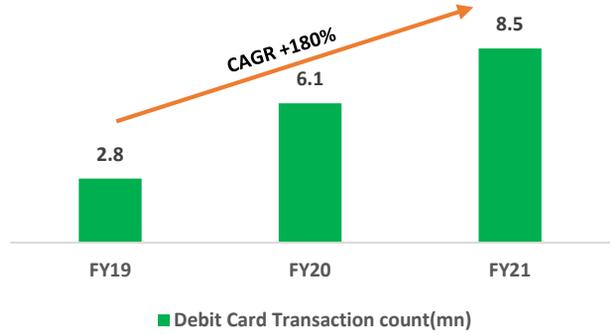
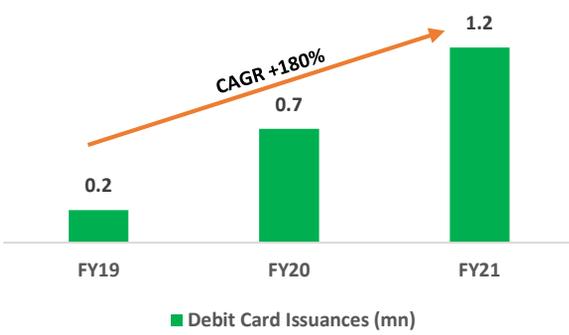
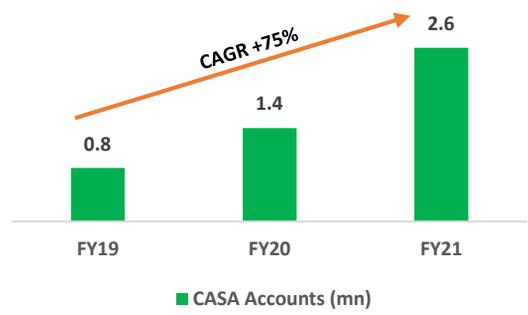
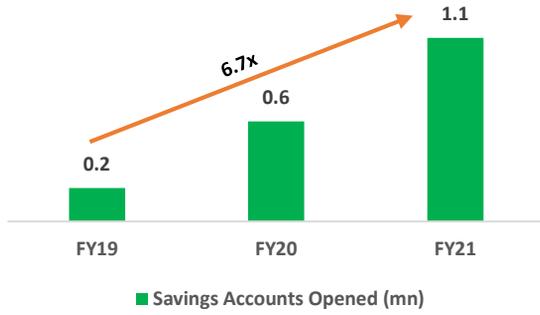
Key Person	Description
Mr Rishi Gupta	Mr Rishi Gupta is the Managing Director and CEO of Fino payments bank. He holds a bachelor's degree in commerce from University of Delhi. He is also a qualified chartered accountant and cost and works accountant and member of ICAI and ICWAI respectively. He is a founding member of Bank and he was an employee of Financial Information Network and Operations Private Ltd (erstwhile name of Promoter, Fino PayTech Ltd). He was previously worked in IFC, ICICI Bank, Maruti Udyog Ltd. He has awarded top 100 most influential BFSI leaders in in Feb 2019.
Mr Mahendra Kumar Chouhan	Mr Mahendra Kumar Chouhan is a part time chairman and an independent director in Fino payments bank. He holds a bachelor's degree in science, and a master's degree in business administration from University of Indore. He has previously served on policy making and regulatory committees such as SEBI Committee on Corporate Governance as well as the Ministry of Corporate Affairs Committee for the National Policy on Corporate Governance. He was also President of Bombay Management Association during 1999- 2000.
Mr Ashish Ahuja	Mr Ashish Ahuja is the Chief Operations Officer of Fino payments bank, he joined Bank with effect from April 1, 2017 and was made the Chief Operating Officer on June 1, 2020. He has a bachelor's degree in Commerce from University of Delhi. Prior to joining Bank, he served as a Major in the Indian Army for 11 years and then also worked with ICICI Bank as Deputy General Manager.
Mr Ketan Dhirendra Merchant	Mr Ketan Dhirendra Merchant is the Chief Financial Officer of Fino payments bank, he joined Bank with effect from August 30,2018 and was made the Chief Financial Officer on February 11, 2019. He has a bachelor's degree in Commerce from University of Mumbai, and he is a qualified chartered accountant from the ICAI. He has previously worked at Barclays Shared Services Ltd, Digicel Central Resources (Fiji) Ltd, M Holdings Ltd, HSBC and Standard Chartered Bank.

Financial Performance

Particulars (in cr.)	FY19	FY20	FY21	Q1FY21	Q1FY22
Interest Income	19.2	18.1	20.3	4.4	6.1
Non Interest Income	352.0	673.3	770.8	146.9	200.2
Total Income	371.1	691.4	791.0	151.3	206.2
Growth (%)		86.3%	14.4%		36.3%
Net Profit/Loss	-62.4	-32.0	20.5	1.9	3.1
EPS (INR as reported)	-8.0	-4.1	2.6	0.2	0.4
Share Capital	44.6	44.6	44.6	44.6	44.6
Reserves	117.5	85.5	106.0	87.3	109.1
Net Worth	162.1	130.1	150.5	131.9	153.7
Deposits	47.5	117.5	242.8	128.6	251.3
Borrowings	82.9	265.6	180.8	100.5	211.3
Investments	73.2	128.3	503.6	243.7	557.8
Total Assets	684.1	624.0	1,010.3	833.2	1,020.2
NAV (INR)	20.8	16.7	19.3	16.9	19.7

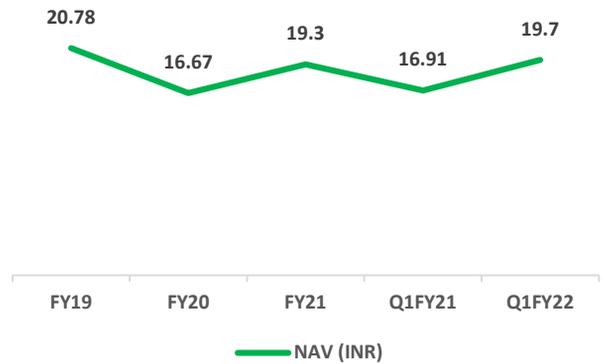
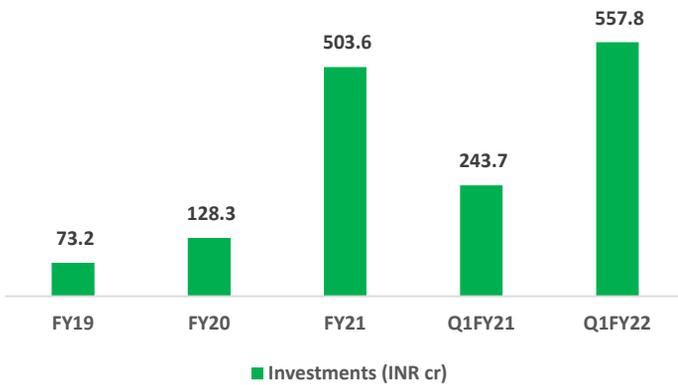
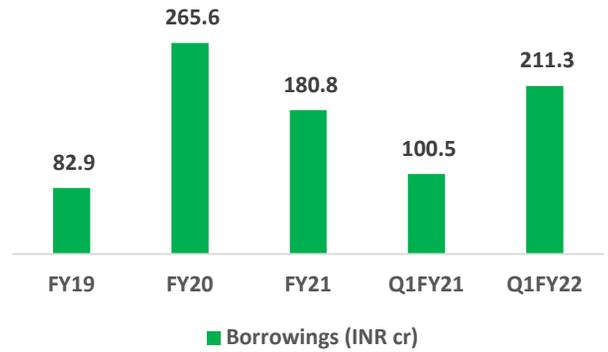
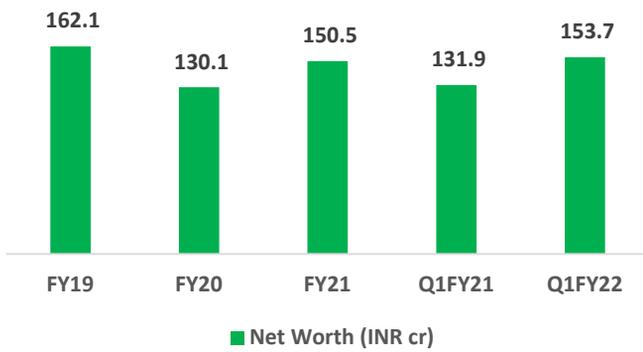
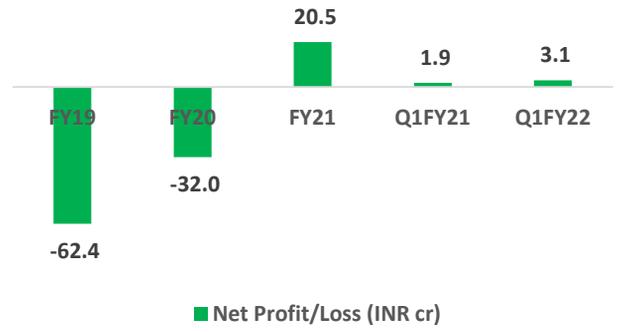
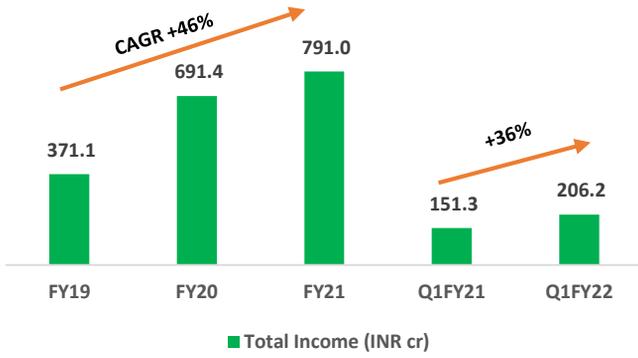
Source: RHP, Arianth Capital Research

Story in Charts



Source: RHP, Company Reports, Aриhant Capital Research

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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 Registration No.	Contact	Website	Email Id
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