

IPO Flash

November 20, 2019

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CSB Bank Limited

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IPO Details:	
Issue Opens	Friday, 22 November 2019
Issue Closes	Tuesday, 26 November 2019
Issue Details	Fresh Issue of Equity Shares aggregating up to Rs 24 Crore and Offer for Sale of up to 19,778,298 Equity Shares
No. of shares	21,009,067 – 21,021,821
Issue Size	Rs405.72 – Rs409.68 Crore
Face Value	Rs10 per share
Price band	Rs193 – Rs195 per share
Bid Lot	75 Shares and in Multiple thereof
Issue Structure	
QIB	75% of the offer
NIB	15% of the offer
Retail	10% of the offer

Source: Company RHP

Shareholding pattern

Shareholder	Pre-issue		Post - issue	
	No. of Shares	Holding (%)	No. of Shares	Holding (%)
Promoter and Promoter Group	86262976	50.09	66,484,678	38.33
Public and others	85962082	49.91	106,971,149	61.67
Total	172225058	100.00	173,455,827	100.00

Source: Company RHP, Sharekhan Research

Top 10 shareholders

Sr. No.	Top 10 Shareholders	No of Equity Shares	% of the pre-Offer Equity Share capital
1	FIH Mauritius Investments Ltd	86,262,976	50.087
2	LIPL CSB OFS Escrow Demat Account	19,778,298	11.484
3	CSB ESOS Trust	5,000,000	2.903
4	Mr. Yusuffali Musaliam Veettil Abdul Kader	3,581,722	2.08
5	Volrado Venture Partners Fund II	3,273,286	1.901
6	Mr. Vallabh Bhanshali	2,185,392	1.269
7	Mr. Satpal Khattar	1,773,906	1.03
8	Mr. Lal Arakulath Sankappa	1,756,908	1.02
9	Mr. Zafar Ahmadullah	1,750,000	1.016
10	Mr. Thomas John Muthoot	1,665,633	0.967

Source: Company RHP

Selling Shareholders list

Offer For Sale (No of Shares)	19,778,298
Other Selling shareholders	Shares up to:
HDFC Life Insurance Company Ltd	4,044,000 Equity Shares
ICICI Prudential Life Insurance Company Ltd	3,044,000 Equity Shares
The Federal Bank Ltd	2,785,661 Equity Shares
Bridge India Fund	2,500,000 Equity Shares
Satellite Multicomm Private Ltd	1,939,097 Equity Shares
Way2Wealth Securities Private Ltd	1,555,214 Equity Shares
ICICI Lombard General Insurance Co Ltd	1,000,000 Equity Shares
Vinod Mohan Nair	1,000,000 Equity Shares
Edelweiss Tokio Life Insurance Co Ltd	846,100 Equity Shares
P-Cube Enterprises Private Ltd	324,000 Equity Shares
Other Selling shareholders	740,226 Equity Shares

Source: Company RHP

OBJECTS OF THE ISSUE	Amount
To utilize the Net Proceeds from the Fresh Issue towards augmenting its Tier-I capital base to meet future capital requirements.	[.]
To achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the Offer for Sale	0
General Corporate Purposes	[.]
Total	[.]

Source: Company RHP

Key investment rationale**Strong channel network and trusted brand in South India:**

CSB provides products and services primarily through an extensive physical network of branches and ATMs. It operates in 16 States and four Union Territories in India, reaching 1.3 million customers through 412 branches (excluding three service branches and three asset recovery branches) and 290 ATMs, as on September 30, 2019. In addition to its physical network, it has made investments in development of alternate channels from time to time. It formed a dedicated alternate delivery channels unit in the year 2014 for enhancing online banking capabilities and digital payment solutions for providing services to its customers via non-branch outlets to improve their banking experience. Its alternate channel network comprises of ATM debit cards, internet banking, mobile banking, point of sales (“POS”), QR payments, UPI, 24*7 phone banking, ePassbook, micro ATMs, prepaid (co-branded) cards, and payment gateway services through tie ups, (collectively “Alternate Channel Network”).

Strong capital base for growth

CSB’s capital position has significantly strengthened post FIH Mauritius Investments Ltd (FIHM) investment in the Bank. Pursuant to a preferential allotment of equity Shares and warrants to FIHM, for which it received Rs 7,207.53 million in fiscal 2019 and the balance amount of Rs 4,869.29 million in fiscal 2020, it has a strong capital base for growth acceleration, something which it was not able to accomplish in past due to paucity of capital.

As per the Basel III Norms, the CRAR, as assessed by the Bank as on March 31, 2019 and September 30, 2019, was 16.70% and 22.77% (including capital conservation buffer), respectively. This is above the minimum prescribed CRAR of 10.875% (including capital conservation buffer of 1.875%) stipulated by the RBI in the Basel III Norms. Further, as on September 30, 2019, its Tier 1 CRAR (including capital conservation buffer) and common equity Tier 1 CRAR (including capital conservation buffer) stood at 22.11% and 22.11%,

respectively, well above the minimum prescribed requirements of 7% and 5.5%, respectively, which would enable for long term growth

Retail offering driven by strong gold loan portfolio: Gold loans constituted a major portion of CSB's advances, contributing 24%, 26%, 31% and 33.17% of their total advances as on March 31, 2017, March 31, 2018, March 31, 2019, and September 30, 2019, respectively. As on March 31, 2019 and September 30, 2019, it had 522,248 and 595,121 gold loan accounts, with advances aggregating to Rs 33,331 million and Rs 37,818 million, implying an average ticket size of approximately Rs 0.06 million and Rs 0.06 million, respectively. Apart from liquidity of the security and low probability of credit losses, gold loan advances offer benefits of hassle-free lending and lower operational costs. CSB's gold loan book has grown by 23% from Rs 20,263 million as on March 31, 2017 to Rs 24,836 million as on March 31, 2018 and by 34% to Rs 33,331 million as on March 31, 2019. Further, its gold loan book accounted for Rs 37,818 million as on September 30, 2019.

Well established SME business: CSB focuses on meeting the funding and banking requirements of SME customers. As a percentage of total advances, loans to SME customers accounted for 43%, 37%, 32% and 29.47% as on March 31, 2017, March 31, 2018, March 31, 2019 and September 30, 2019, respectively. The bank believes that lending to SMEs enables it to diversify its credit risk profile due to relatively smaller individual exposures. As on March 31, 2019 and September 30, 2019, its advances to SME customers aggregated to Rs 34,733 million and Rs 33,605 million, respectively, spread across 7,529 accounts and 7,534 accounts, respectively, implying an average ticket size of approximately Rs 4.61 million and Rs 4.46 million, respectively. Further, as on March 31, 2019 and September 30, 2019, working capital advances such as cash credit and overdraft facilities to its SME customers constituted 14% and 11.11% of its total advances, respectively, while terms loans to SME customers constituted 18% and 18.36% of total advances, respectively. SME business offers comparatively higher yields, cross-selling and associated business opportunities, and higher degree of secured and collateralized loans. As on March 31, 2019 and September 30, 2019, 99.26% and 96.11% of its SME loan portfolio was secured by tangible collateral, respectively. Lending to SMEs also helps CSB to meet its priority sector lending targets.

Stable and granular deposit base: CSB's deposit base has remained stable. During last three fiscals, despite a decline in term deposits due to its conscious strategy of not focusing on such deposits, its overall deposits base has remained intact and has increased from Rs 149,116 million in fiscal 2017 to Rs 151,239 million in Fiscal 2019, owing to an increase in CASA deposits. The overall deposits base was Rs 155,098 million for the six-month period ended September 30, 2019. The CASA deposits increased from Rs 36,946 million as on March 31, 2017 to Rs 42,106 million as on March 31, 2019. The CASA ratio improved from 24.78% in Fiscal 2017 to 27.84% in Fiscal 2019, which has led to reduced cost of borrowings for the Bank and improvement in net interest margin of the Bank in Fiscal 2019. Further, as of September 30, 2019, the CASA ratio was standing at 28.19% and the retail deposits constituted 92.93% of its total term deposits. , and these deposits have consistently exhibited renewal patterns of above 90%. NRI deposits have been a stable source of funding for the Bank, constituting 23.98%, 25.74%, and 24.87% of the total deposits as on March 31, 2017, March 31, 2018, and March 31, 2019, respectively, and have grown at a CAGR of 3% during the last three Fiscals. Further, NRI deposits constituted 24.59% of the total deposits as on September 30, 2019.

Key Constraints And Action Taken By Bank

Constraints Faced	Actions Taken
Low Capital Base	Tier I capital ratio has been further augmented post capital infusion in second quarter of Fiscal 2020. Further, as per the Basel III Norms, the CRAR as on September 30, 2019 was 22.77%.
High People Cost Structure & Low Staff Productivity	reduction of retirement age from 60 years to 58 years; hiring of lateral talent along with hiring of new recruits in order to improve operating efficiency, CSB focused on rationalizing branch infrastructure by closing down unprofitable branches and focused on increasing reach via alternate channels such as ATMs, and digital channels
High NPAs	Net NPA reduced to 2% from 4.1% in FY17; Provisioning coverage ratio increased to 79.5% from 66% in FY17
High Cost of Deposits	adopted a conscious strategy of repricing term deposits to manage its share in overall deposits given low credit to deposit ratio in Fiscal 2017 and to further reduce cost of deposits; CASA ratio improved from 24.78% in Fiscal 2017 to 27.84% in Fiscal 2019, leading to a significant reduction in cost of deposits from 6.89% in Fiscal 2017 to 5.87% in Fiscal 2019.
Falling NIM	The net interest margin increased from 2.11% in Fiscal 2017 to 2.80% in Fiscal 2019 primarily on account of reduction in cost of funds and increase in credit to deposit ratio.

Source: Company RHP

Key risks

Any change in the income recognition or asset classification norms or in RBI mandated provisioning requirements could also affect bank's business: Although the Bank is making efforts to improve collections and to foreclose on existing impaired loans in a timely manner, there cannot be any assurance that it will be successful in its efforts or that the overall quality of the Bank's loan portfolio will improve or will not deteriorate in the future. If the bank is unsuccessful in controlling or reducing its impaired loans, or if there is a significant increase in impaired loans or deterioration in the quality of the assets that the Bank holds as security, the bank's future financial performance could be materially and adversely affected.

The bank has regional concentration in southern India, especially Kerala. Any adverse change in the economic, political, or geographical conditions of Kerala and other states in southern India can impact results of operations: As of September 30, 2019, CSB had 412 branches in India. Out of the 412 branches (excluding three service branches and three asset recovery branches), 349 branches were located in southern India (including 267 branches located in Kerala and 56 branches located in Tamil Nadu) constituting 78.39% of the total branch network. Further, as on September 30, 2019, out of the total deposits of Rs 155,098 million, Rs 103,438 million and Rs 18,336 million were received from Kerala and Tamil Nadu, respectively, constituting 66.69% and 11.82% of total deposits, respectively. Further, as on September 30, 2019, out of total advances of Rs 112,978 million, Rs 33,231 million and Rs 28,565 million were in Kerala and Tamil Nadu, respectively, constituting 29.41% and 25.28% of the total advances, respectively. India has experienced natural calamities such as earthquakes, tsunamis, floods, and droughts in the past. Instances of floods or other natural calamities in India, particularly in Tamil Nadu, Puducherry, Kerala, and Karnataka, could have an adverse effect on CSB's business and the price of its Equity Shares.

Bank is required to obtain prior permission from the RBI to open new branches: Pursuant to a letter dated January 30, 2015, from the RBI in relation to broadening of capital base and listing of the Equity shares, the general permission for opening new branches was withdrawn from the Bank and the Bank is not permitted to open any new branches without prior approval of the RBI. Pursuant to their requests, the RBI has vide its letter dated May 13, 2019, subject to certain conditions, granted permission to the Bank to open 10 new BOs at certain locations indicated by the RBI. There can be no assurance that (i) bank will be able to open new branches, (ii) bank will continue to satisfy the eligibility criteria for branch expansion, (iii) the restrictions imposed by the RBI will be revoked, (iv) the RBI will give its approval to open new branches in future, or (v) the RBI will not impose similar restrictions on the bank in the future, as a result of which its business prospects could be adversely affected.

Valuations: CSB has a credible pedigree post the Fairfax India Holdings Corporation taken over the majority stake in the bank. The asset quality is showing an improving trend over the years, and currently GNPA stood at 2.86% and NNPA of 1.96% (as on September 2019). The revamped operating strategy resulted in revival of growth with gradual improvement in profitability. Also, at the end of September 30th 2019, CSB has 22.77% CRAR (including capital conservation buffer), which would enable for long term growth. CSB's core operating profit (profit before provisioning and tax, excluding profit on sale of investments) was Rs 90.62 crores at the end of first half FY20, while RoNW stood at 2.88%. CSB has successfully turned its operation in the last six months. The long term prospects look promising for the bank. At the upper end of price band, the issue priced at 2.17x FY19 post issue Book Value.

Peer comparison

Company	P/EPS (x)	P/BV (x)	RoNW (%)
CSB Bank Limited	NA	2.17	(6.7)
DCB Bank	17.00	1.93	11.3
Federal Bank	13.12	1.29	9.8
City Union Bank	22.41	3.26	14.1
Karur Vysya Bank	21.77	0.70	3.3

Source: Company RHP, Sharekhan Research

Note:

For CSB Bank upper price band is taken, while for remaining companies closing price as on 19th November 2019 is taken; Financial and other data pertain to as on / for period ending March 2019; Book Value of CSB has been taken post dilution, at the upper price band

About the company

CSB Bank Limited (CSB) is one of the oldest private sector banks in India with a history of over 98 years and has a strong base in Kerala along with significant presence in Tamil Nadu, Karnataka, and Maharashtra. It offers a wide range of products and services to its overall customer base of 1.3 million as on September 30, 2019, with particular focus on SME, Retail, and NRI customers.

It delivers its products and services through multiple channels, including 412 branches (excluding three service branches and three asset recovery branches) and 290 ATMs spread across 16 states and four union territories as on September 30, 2019, and various alternate channels such as micro ATMs, debit cards, internet banking, mobile banking, point of sale services and UPI. It has four principal business areas, namely, (a) SME banking, (b) retail banking, (c) wholesale banking, and (d) treasury operations.

As on the date of the Red Herring Prospectus, FIHM holds 86,262,976 Equity Shares, representing 50.09% of the issued, subscribed and paid-up equity share capital of the Bank. FIHM is a wholly owned subsidiary of Fairfax India Holdings Corporation.

Brief profiles of Directors

Mr. Madhavan Karunakaran Menon is the Part – time Chairman and a Non – executive Director of the Bank. He holds a bachelor's degree and a master's degree in business administration from the George Washington University. He is also qualified for the award of "Indian School Certificate" in division two issued by the University of Cambridge. He has over 30 years of experience in the finance and banking sector. He has previously worked with ANZ Grindlays Bank Limited, Citibank N.A., Emirates Bank International, Birla Capital International AMC Limited in the past. He is currently on the chairman and managing director of Thomas Cook (India) Limited and has been on CSB's Board since September 3, 2018.

Mr. Rajendran Chinna Veerappan is the Managing Director and Chief Executive Officer of the Bank. He holds a bachelor's degree and a master's degree in commerce from Madurai Kamaraj University and is an associate of the Indian Institute of Bankers. He previously served as the chief executive of the Association

of Mutual Funds in India and is currently responsible for overall management and expansion of the Bank. He has over 40 years of experience in banking and finance sector and was previously associated with Corporation Bank, Andhra Bank and Bank of Maharashtra. He has been on CSB's Board since November 24, 2016.

Mr. Sumit Maheshwari is a Non – executive Director of the Bank. He holds a bachelor's and a master's degree in commerce from the University of Mumbai. He is a certified associate member of the Institute of Chartered Accountants of India. He has completed the post graduate programme in management from the Indian School of Business. He has over 10 years of experience in finance sector. Previously, he has worked with KPMG and is currently the managing director and chief executive officer of Fairbridge Capital Private Limited. He has been on CSB's Board since September 3, 2018.

Mr. Thomas Mathew is an Independent Director of the Bank. He holds a bachelor's in commerce degree from the University of Kerala. He is a fellow member of the Institute of Chartered Accountants of India and has around 34 years of experience in finance sector. In the past, he has worked with Lovelock & Lewes, Chartered Accountants and has served as a director on the central board of State Bank of India in the past. He has been on CSB's Board since April 24, 2017.

Ms. Bhama Krishnamurthy is an Independent Director of the Bank. She holds a master's degree in science from the University of Mumbai. She has over 40 years of experience in the field of banking and small scale industry. She has served as the chief general manager of the Small Industries Development Bank of India in the past. She has been on CSB's Board since September 3, 2018.

Mr. Aravamuthan Madhavan is an Independent Director of the Bank. He holds a bachelor's degree and a master's degree in arts from the University of Madras. He is also a certified associate of the Indian Institute of Bankers. He has over 36 years of experience in the banking and finance sector. He has served as the director of the Bank of Rajasthan and has been in service with the Reserve Bank of India in the past and has been on CSB's Board since December 13, 2018.

Mr. Syed Nagoor Ali Jinnah is an Independent Director of the Bank. He has completed post graduate diploma in management (agriculture) from the Indian Institute of Management, Ahmedabad. He has also completed the course of junior associate of Indian Institute of Bankers and certified associate of Indian Institute of Bankers (rural banking) from the Indian Institute of Banking and Finance. He has about 34 years of experience in agricultural and rural banking sector and has worked with NABARD in the past. He has been on CSB's Board since March 6, 2019.

Source: Company RHP

Financials

Balance Sheet

Particulars	Rs. cr			
	FY17	FY18	FY19	H1FY20
ASSETS				
Cash in Hand	50.6	54.9	58.4	54.9
Balance with RBI	705.8	622.9	667.0	651.3
Balance with Banks	-	-	-	-
In India	57.6	18.8	12.8	8.8
Outside India	19.1	27.5	10.4	101.1
Money at Call & Short Notice	378.0	491.0	225.0	-
Investments				
In India Gross Investment	5,777.1	4,163.0	4,111.8	4,397.2
Less: Provision for NPA Investment	-	-	-	-
Less: Depreciation on Investment	47.9	79.7	84.2	83.1
In India Net Investment	5,729.2	4,083.3	4,027.6	4,314.1
Advances				
In India	8,000.8	9,184.9	10,615.2	11,297.8
Outside India	-	-	-	-
Fixed Assets	215.3	216.1	217.7	215.6
Less: Revaluation Reserve	164.0	159.5	157.8	157.1
Net Fixed Assets	51.3	56.7	59.9	58.5
Other Assets	971.2	1,058.3	1,077.0	1,111.8
Less: Intangible Assets and Deferred Tax Asset	193.6	263.5	299.9	275.1
Net Other Assets	777.6	794.7	777.1	836.7
TOTAL (A)	15,770.0	15,334.7	16,453.5	17,323.3
LIABILITIES				
DEPOSITS				
Demand Deposit				
From Banks	0.6	0.5	0.5	1.3
From Others	607.1	627.6	616.6	658.0
Saving Deposits	3,086.8	3,342.5	3,593.5	3,712.5
Term Deposits from Banks	18.3	5.9	190.1	183.0
Term Deposits from others	11,198.6	10,714.1	10,723.2	10,954.9
Borrowings				
Subordinate Debts(Tier-II Bonds)	41.8	41.8	-	-
Other Liabilities & Provisions	270.5	248.6	355.6	277.4
TOTAL (B)	15,223.9	14,981.0	15,479.5	15,787.3
NET WORTH (A-B)	546.1	353.6	974.0	1,536.0
Share Capital	81.0	81.0	86.0	172.3
Equity Share Capital	81.0	81.0	86.0	172.3
Share Warrant	-	-	651.3	-
RESERVE & SURPLUS				
Statutory Reserve	146.8	146.8	146.8	146.8
Capital Reserve	71.7	71.7	71.7	72.0
Revaluation Reserve	164.0	159.5	157.8	157.1
Share Premium	647.5	647.5	712.0	1,768.9
Revenue & Other Reserve	113.9	118.4	120.1	120.8
Balance of Profit & Loss Account	-	-	-	-
TOTAL	1,143.9	1,143.9	1,208.3	2,265.6
Less: Revaluation Reserve	164.0	159.5	157.8	157.1
Less: Intangible Assets and Deferred Tax Asset	193.6	263.5	299.9	275.1
Less: Profit & Loss (Dr.)	321.2	448.3	514.0	469.7
TOTAL	465.1	272.6	236.7	1,363.7
NET WORTH	546.1	353.6	974.0	1,536.0

Source: Company RHP

P&L

Rs. cr

Particulars	Financial Year Ended 31st March			Half Year Ended
	2017	2018	2019	30.09.2019
INCOME				
Interest Earned	1,336.30	1,296.81	1,347.52	732.30
Interest & Discount on advance/bills	880.88	912.81	968.62	563.13
Income on Investment	412.56	336.20	347.37	153.40
Interest on balance with RBI & other Inter Bank Lending	2.69	5.94	2.37	2.47
Interest - Others	40.16	41.85	29.16	13.30
OTHER INCOME	281.20	125.42	135.92	84.42
Commission, Exchange & Brokerage	20.49	23.36	27.24	13.71
Profit on sale of Investments(Net)	195.91	2.73	8.01	12.96
Profit on sale of land, building & other assets (Net)	(0.28)	1.53	(0.75)	(0.37)
Profit on exchange transaction(Net)	9.34	8.81	7.05	3.73
Miscellaneous Income	55.74	89.01	94.38	54.39
TOTAL INCOME	1,617.50	1,422.23	1,483.43	816.71
EXPENDITURE				
Interest Expended	1,022.69	912.00	907.56	452.78
Interest on Deposits	1,004.15	897.26	861.83	448.31
Interest on RBI/Inter Bank borrowings	9.27	4.93	31.49	1.78
Others	9.27	9.81	14.25	2.70
Operating Expenses	443.09	435.90	562.51	260.36
Payment to & provision for employees	293.58	286.91	384.43	168.14
Rent, Tax & Lighting	41.46	45.91	50.59	27.80
Printing & Stationery	4.59	3.53	4.04	2.09
Advertisement & Publicity	0.86	1.72	0.78	0.34
Depreciation on Banks Properties /Assets	14.93	15.57	16.53	10.00
Director's fees, allowances and expenses	1.43	1.02	0.77	0.37
Auditor's Fees & Expenses	1.78	1.59	1.84	0.84
Law Charges	1.96	2.56	3.16	1.16
Postage, Telegrams, Telephones etc.	8.86	8.44	9.74	5.01
Repairs & Maintenance	7.00	7.63	8.51	4.55
Insurance	15.35	15.93	16.56	8.65
Other Expenditure	51.30	45.10	65.58	31.40
TOTAL EXPENDITURE	1,465.78	1,347.90	1,470.08	713.14
Operating Profit (before Extra Ordinary Items and Provision & Contingencies)	151.71	74.33	13.36	103.58
Add/(less): Extra Ordinary Items net of taxes	-	-	-	-
Less: Provisions & Contingencies (other than Provision for Tax)	252.16	269.22	110.97	34.64
Profit Before Tax	(100.44)	(194.89)	(97.61)	68.93
Provision for Tax including deferred tax	(42.45)	(67.81)	(31.92)	24.66
Net Profit after tax	(57.99)	(127.09)	(65.69)	44.27

Source: Company RHP

Key Ratios

Rs. cr

Particulars	As at March 31			
	As on Sep 2019	2019	2018	2017
Gross NPA (%)	2.86	4.87	7.89	7.25
Net NPA (%)	1.96	2.27	2.87	4.12
EPS (Rs.)	3.86	(7.9)	(15.7)	(7.66)
Net Asset Value (Rs.)	89.19	73.54	43.68	67.46

Source: Company RHP

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

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