



Thematic Note on Indian PSU Companies & Top 5 Picks

Scope of Work

- Note on broader market and BSE PSU Index.
- Comparison of BSE PSU Index & Nifty Index between 15th May 2014 to 5th Oct 2018.
- Comparison of BSE PSU Index & Nifty Index between 15th May 2009 to 15th May 2014.
- Basic financial, valuation and market data on PSU companies (ex. banking).
- Short note with basic rationale & brief financials on the Top 5 picks.

Selection Pattern of Top 5 Picks

- Beaten down price, growth visibility at reasonable price.
- Minimal to zero Debt companies.
- Higher Dividend Yield and Payout Ratio expected.
- ROE, ROCE above 15%.
- Market Capitalization of below INR 10,000 Cr.

**atleast 3 criteria met for each company.*

Research Analysts

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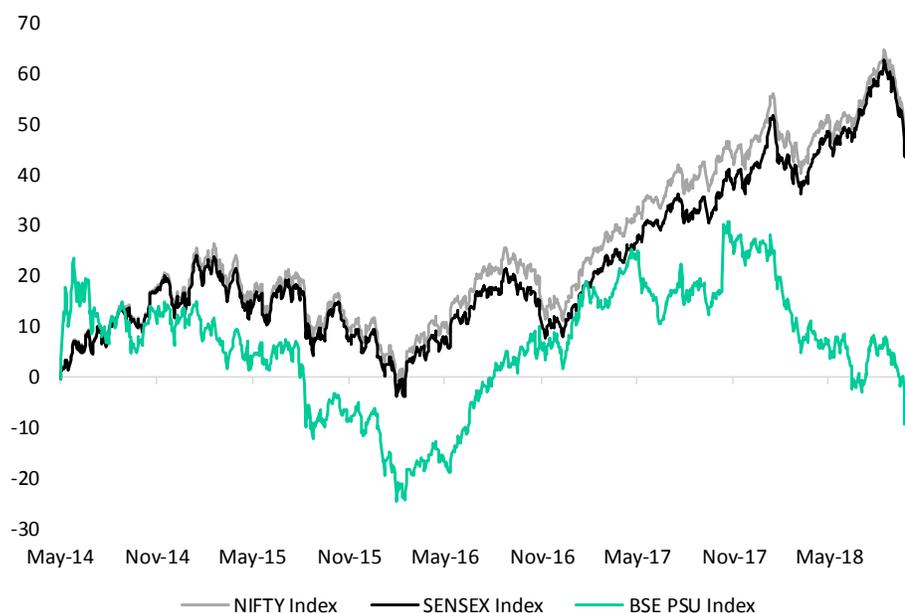
The recent correction in the Indian stock market (Nifty down ~12% from peak of 28.08.2018) is a result of host of factors, both global and local. Among the global factors, sharp surge in crude oil prices (up from \$71/barrel for Brent on 15.08.2018 to \$86 on 03.10.2018, an increase of ~22% in less than two months. trade war rhetoric's and implementation of the same by US and China and some other countries, flight of capital from Emerging markets to US and other safe haven due to robust US economic growth resulting in 75bps Fed rate hike in three instances till now in 2018 and expectation of another 25bps hike in next Fed policy - led to sharp spike in US yields which resulted in flight of capital from emerging Markets. All these factors and widening trade deficit have resulted to sharp depreciation of the INR/USD by ~8% from INR68.40 to INR~74 to a USD from August 1st 2018 till October 5th 2018.

Besides the above factors, domestic political conditions have deteriorated with the ruling government losing some key state elections and fear of further damage in some ensuing elections, signaling a poor mandate in general elections of 2019 to the ruling government. This fear has led the government to take measures which further dent the fiscal situation of the country. The recent dictate of the Government to OMCs to absorb INR1.00 in petrol and diesel, signaled roll back of price deregulation of the oil sector, which has severely affected investor's sentiments.

We at Stewart & Mackertich Research believe this may be the last blow to the PSU sector, the sharp price corrections are overdone and some companies offer great investment opportunities.

When the BJP Government won with thumping majority, it was widely believed, as it was part of the manifesto of the BJP/ NDA that the PSU companies may see major reforms. Hence the BSE PSU sector outperformed with around 20% gains in the first few days of the formation of the Government. **However, over the past four years, due to the reasons cited above, the BSE PSU Index has sharply underperformed, down ~9% between 15.05.2014 to 05.10.2018, against Nifty and Sensex gains of around 44% (Exhibit 1).**

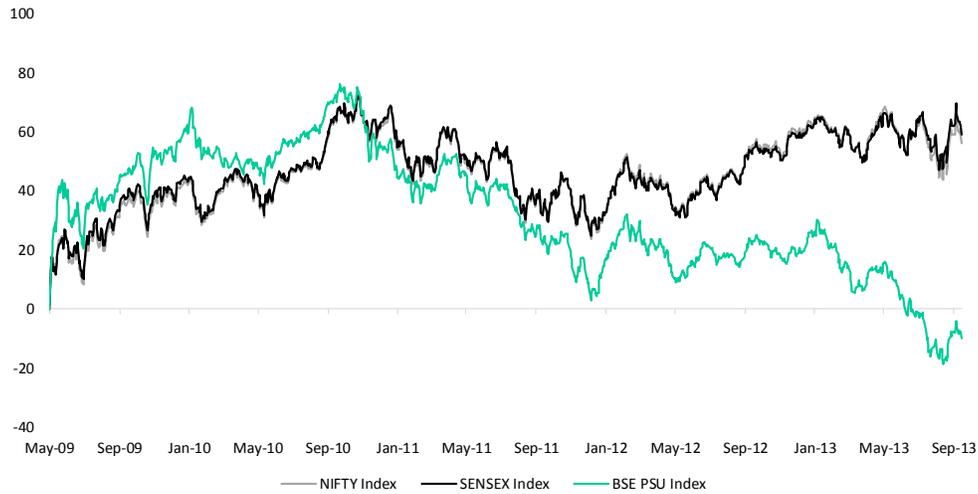
Exhibit 1 : BSE PSU Index performance Vs NIFTY & Sensex



Source-Bloomberg & SMIFS Research

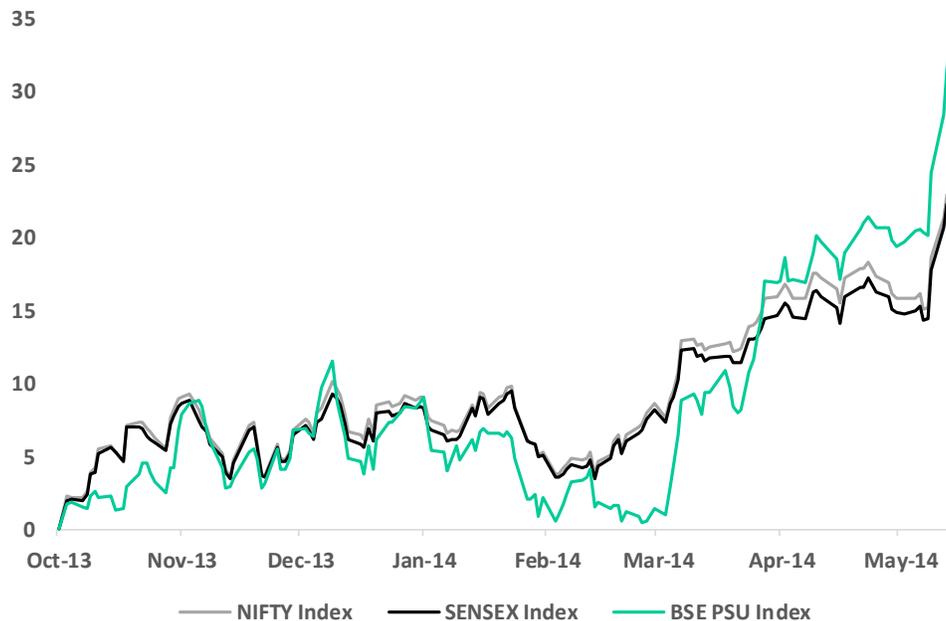
It is interesting to note that a similar pattern was seen during May 2009- September 2013 of the UPA 2 regime wherein the BSE PSU Index had fallen by around ~9% and NIFTY had gained ~56% (Exhibit 2).

Exhibit 2 : BSE PSU Index performance Vs NIFTY & Sensex



However, during the last six months of the UPA Government (Oct 2013– May 2014), the BSE PSU Index outperformed again (Exhibit 3).

Exhibit 3 : BSE PSU Index performance Vs NIFTY & Sensex



We may not see a similar pattern this time around as the fiscal situation of the country has worsened and Crude oil prices and INR /USD are both adversely affecting sentiments and fundamentals. However, if these two factors reverse, we may see the PSU shares revive again.

Never-the-less, general elections are just seven months from now and most factors get discounted in the market ahead of the events. Investors with a 12-18 months investment horizon can Accumulate/Buy fundamentally sound companies or companies with a strong visibility of earnings. We have selected five stocks from the PSU segment with 5 key parameters, assuring that at least 3 parameters are met. **The selection of stocks are from companies with market cap less than 10000 crores.**

The Five key parameters are:

- Beaten down price, growth visibility at reasonable price.
- Minimal to zero Debt companies.
- Higher Dividend Yield and Payout Ratio expected.
- ROE, ROCE above 15%.
- Market Capitalization of below 10,000 crore.

**3 companies meet all 5 criteria*

2 companies meet atleast 3 criteria

It is common saying that amongst adversity lies opportunity. The recent fall in PSU shares gives an excellent opportunity for long term investors with a 12-18 months investment horizon to accumulate some PSU shares. We have high conviction that these shares are likely to generate an average of ~30% annualized return in the next 18 months. Since the general elections are just seven months from now, sentimentally worst seems to have been factored into these stocks.

The Five broader factors for identifying the companies, besides the other rationales mentioned in the individual reports are as follows:

- ***Oil price shock is an eye opener to the Government to expedite significant investment in hydrocarbon sector.***
- ***Huge investment plans by Refineries and pipeline companies in oil and gas sector (details in company note).***
- ***Development of major ports.***
- ***The New Mining Policy which is in the offing.***
- ***Monetization of surplus Government land/ Building of smart cities / affordable housing projects.***

The detailed rational and update on the companies are given in the ensuing pages.

Key Risks:

Any unfavorable policy changes by the government with respect to the companies covered can be a key risk for our coverage.

Key Financials of Indian PSUs (ex. banking)

Sr. No.	Company Name	Financial Performance-FY18 (INR crore)								
		Market Cap	No. of Shares (in cr)	EV	Face Value	Sales	EBITDA	EBITDA Margin (%)	PAT	PAT Margin (%)
1	Oil & Natural Gas Corporation Ltd.	228174.90	1283.32	329254.22	5.00	362246.18	64333.83	17.76	23354.85	6.45
2	Coal India Ltd.	175980.07	620.74	146042.72	10.00	131559.89	14226.05	10.81	7019.78	5.34
3	Indian Oil Corporation Ltd.	167109.30	971.18	232264.81	10.00	515548.79	45047.90	8.74	21715.20	4.21
4	NTPC Ltd.	139925.46	824.55	265586.42	10.00	88083.31	24551.11	27.87	10056.45	11.42
5	Power Grid Corporation Of India Ltd.	101414.37	523.16	230728.31	10.00	29941.49	26800.98	89.51	8050.37	26.89
6	Bharat Petroleum Corporation Ltd.	84172.63	216.93	120478.13	10.00	279312.70	16955.38	6.07	8503.03	3.04
7	GAIL (India) Ltd.	74101.60	225.51	74462.86	10.00	54694.31	8635.95	15.79	4651.80	8.51
8	Hindustan Petroleum Corporation Ltd.	52442.27	152.38	73089.11	10.00	246491.28	12240.83	4.97	5896.70	2.39
9	NMDC Ltd.	37539.67	316.39	32578.78	1.00	11614.91	6325.32	54.46	3802.79	32.74
10	Bharat Electronics Ltd.	34611.90	243.66	33851.19	1.00	10485.16	2235.11	21.32	1407.25	13.42
11	Container Corporation Of India Ltd.	30313.89	48.74	28343.52	5.00	6714.80	1786.18	26.60	1008.92	15.03
12	Bharat Heavy Electricals Ltd.	29885.20	367.14	18703.34	2.00	29075.46	2723.13	9.37	828.95	2.85
13	Steel Authority Of India Ltd.	28996.32	413.05	74059.49	10.00	58966.16	5050.80	8.57	-566.26	-0.96
14	NHPC Ltd.	28367.02	1025.93	43650.06	10.00	7751.24	5702.96	73.57	2774.78	35.80
15	Rural Electrification Corporation Ltd.	24696.37	197.49	221821.27	10.00	23054.42	20870.42	90.53	4689.46	20.34
16	Mangalore Refinery & Petrochemicals Ltd.	19190.96	175.26	33278.98	10.00	63688.06	4778.35	7.50	1773.46	2.78
17	NBCC (India) Ltd.	17131.50	180.00	14649.60	1.00	6941.60	649.32	9.35	371.57	5.35
18	Oil India Ltd.	16289.60	113.49	25298.94	10.00	10697.75	4937.59	46.16	1932.81	18.07
19	Housing & Urban Development Corporation Ltd.	13282.61	200.19	49265.90	10.00	4075.63	3364.66	82.56	799.95	19.63
20	SJVN Ltd.	13105.88	392.98	11722.02	10.00	2228.50	2110.43	94.70	1221.57	54.82
21	National Aluminium Company Ltd.	12902.24	193.29	10178.28	5.00	9618.31	1697.10	17.64	1342.41	13.96
22	NLC India Ltd.	12817.06	152.86	25663.96	10.00	11288.39	4537.50	40.20	1956.78	17.33
23	Engineers India Ltd.	9990.52	63.19	7453.38	5.00	1830.00	605.05	33.06	383.35	20.95
24	ITI Ltd.	8595.60	89.70	9497.17	10.00	1484.16	408.83	27.55	230.56	15.53
25	Cochin Shipyard Ltd	6842.34	13.59	3459.95	10.00	2355.12	653.63	27.75	396.26	16.83
26	MMTC Ltd.	5565.00	150.00	5940.56	1.00	16451.01	67.47	0.41	26.16	0.16
27	MOIL Ltd.	5042.69	25.76	2903.57	10.00	1323.46	674.38	50.96	398.56	30.12
28	Chennai Petroleum Corporation Ltd.	4891.74	14.89	9271.93	10.00	44189.18	2115.04	4.79	907.68	2.05
29	BEML Ltd.	4348.31	4.16	4791.79	10.00	3298.70	284.11	8.61	129.68	3.93
30	Rashtriya Chemicals & Fertilizers Ltd.	4038.37	55.17	5363.43	10.00	7318.63	332.32	4.54	78.80	1.08
31	Gujarat Mineral Development Corporation Ltd.	3922.53	31.80	3865.00	2.00	2078.44	669.57	32.22	433.95	20.88
32	India Tourism Development Corporation Ltd.	3887.93	8.58	3576.25	10.00	367.59	2.00	0.54	20.49	5.57
33	Shipping Corporation Of India Ltd.	2997.42	46.58	7452.63	10.00	3469.47	819.86	23.63	253.75	7.31
34	Balmer Lawrie & Company Ltd.	2476.13	11.40	1985.05	10.00	1757.64	269.42	15.33	164.81	9.38

Source: ACE Equity & SMIFS Research

Key Financials of Indian PSUs (ex. banking)

Sr. No.	Company Name	Financial Performance-FY18 (INR crore)					Return ratios-FY18 (%)			Valuation Ratios-FY18		
		Paid up Capital	Reserves & Surplus	Net Worth	Total Debt	D/E(x)	ROE(%)	ROCE(%)	RONW(%)	PE (x)	Dividend Yield(%)	EV/ EBITDA (x)
1	Oil & Natural Gas Corporation Ltd.	6416.62	197602.27	204018.89	106157.69	0.52	11.72	14.20	11.72	10.32	4.60	7.37
2	Coal India Ltd.	6207.41	13639.16	19846.57	1537.72	0.08	31.65	45.63	31.65	25.07	0.77	16.87
3	Indian Oil Corporation Ltd.	9478.69	104395.13	113873.82	65649.79	0.58	20.11	21.68	20.11	7.53	1.41	15.15
4	NTPC Ltd.	8245.46	95318.01	102304.05	130048.56	1.27	10.11	7.72	10.11	13.27	2.24	6.87
5	Power Grid Corporation Of India Ltd.	5231.59	49194.40	51326.41	131502.96	2.56	16.42	10.08	16.42	12.37	4.91	7.11
6	Bharat Petroleum Corporation Ltd.	1966.88	34651.69	36618.57	37659.36	1.03	25.22	19.98	25.22	9.34	5.63	4.38
7	GAIL (India) Ltd.	2255.07	39423.50	41678.57	3219.80	0.08	11.49	15.76	11.49	15.44	5.82	10.27
8	Hindustan Petroleum Corporation Ltd.	1523.82	24008.23	25532.05	21952.02	0.86	25.31	20.75	25.31	7.27	2.38	5.29
9	NMDC Ltd.	316.39	24101.02	24417.41	500.09	0.02	16.18	26.16	16.18	9.86	1.37	15.87
10	Bharat Electronics Ltd.	243.66	7772.02	8015.68	80.36	0.01	17.87	24.70	17.87	24.18	2.53	12.32
11	Container Corporation Of India Ltd.	243.72	9104.43	9348.15	62.00	0.01	11.14	14.98	11.14	28.26	2.77	8.62
12	Bharat Heavy Electricals Ltd.	734.28	31600.71	32334.99	109.73	0.00	2.56	5.96	2.56	67.72	2.84	5.77
13	Steel Authority Of India Ltd.	4130.53	32816.12	36946.65	45408.72	1.23	-1.53	2.50	-1.53	0.00	4.94	5.97
14	NHPC Ltd.	10259.32	19758.58	25764.06	18602.10	0.72	10.83	9.50	10.83	11.33	0.83	14.64
15	Rural Electrification Corporation Ltd.	1974.92	33897.38	35632.65	199493.14	5.60	13.53	9.53	13.53	5.27	0.41	1788.84
16	Mangalore Refinery & Petrochemicals Ltd.	1752.60	8480.75	10233.35	14921.02	1.46	17.97	15.11	17.97	9.63	11.91	5.16
17	NBCC (India) Ltd.	180.00	1785.55	1965.55	0.00	0.00	20.31	35.15	20.31	48.30	0.00	23.23
18	Oil India Ltd.	756.60	28273.39	29029.99	12329.31	0.42	6.60	8.49	6.60	5.96	2.74	6.96
19	Housing & Urban Development Corporation Ltd.	2001.90	7821.06	9822.96	36205.67	3.69	8.42	8.06	8.42	16.60	0.54	88.05
20	SJVN Ltd.	3929.80	6770.36	10700.16	2230.68	0.21	11.01	13.01	11.01	10.70	2.81	4.31
21	National Aluminium Company Ltd.	966.46	9537.49	10503.95	44.99	0.00	12.96	19.62	12.96	9.61	7.04	6.00
22	NLC India Ltd.	1528.57	11823.40	13351.97	13215.37	0.99	15.36	13.43	15.36	6.55	0.88	22.56
23	Engineers India Ltd.	315.96	2025.27	2341.22	0.00	0.00	14.78	22.41	14.78	26.06	5.06	7.65
24	ITI Ltd.	760.00	768.11	-810.97	1226.32	-1.51	0.00	159.02	0.00	37.28	5.37	5.66
25	Cochin Shipyard Ltd	135.94	3119.54	3255.47	123.00	0.04	12.17	18.24	12.17	17.26	3.62	5.15
26	MMTC Ltd.	100.00	1102.70	1202.70	519.26	0.43	2.18	3.19	2.18	148.32	3.02	10.82
27	MOIL Ltd.	257.61	2537.02	2794.62	0.00	0.00	14.23	21.85	14.23	12.80	3.71	5.12
28	Chennai Petroleum Corporation Ltd.	148.91	3848.00	3977.89	4388.90	1.10	24.53	20.53	24.53	5.28	6.97	5.12
29	BEML Ltd.	41.64	2159.34	2200.98	446.26	0.20	5.92	8.30	5.92	33.53	2.71	8.61
30	Rashtriya Chemicals & Fertilizers Ltd.	551.69	2378.04	2929.73	1331.01	0.45	2.69	4.36	2.69	51.24	0.82	16.14
31	Gujarat Mineral Development Corporation Ltd.	63.60	4288.31	4351.91	0.00	0.00	10.39	13.36	10.39	11.11	7.32	10.63
32	India Tourism Development Corporation Ltd.	85.77	227.48	313.25	1.04	0.00	6.61	7.87	6.61	219.18	0.00	9.09
33	Shipping Corporation Of India Ltd.	465.80	6768.36	7234.16	5585.37	0.77	3.59	1.66	3.59	9.78	6.30	5.55
34	Balmer Lawrie & Company Ltd.	114.00	1342.94	1456.94	14.90	0.01	11.70	17.12	11.70	15.14	0.00	14.66

Source: ACE Equity & SMIFS Research



Top 5 Indian PSU Picks

CMP (INR) (As on 5th Oct)	103.3
Target (INR)	158.57
Upside(%)	54
Recommendation	Strong Buy

BSE Code	532178
NSE Code	ENGINEERSIN
Reuters Ticker	ENGI.BO
Bloomberg Ticker	ENGR IN

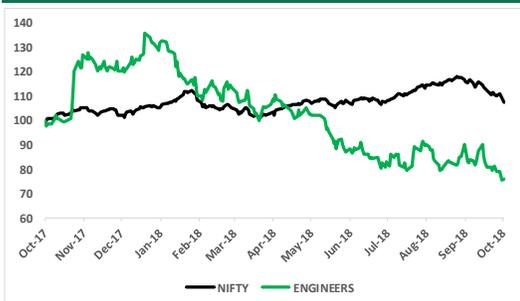
Stock Scan

Market cap (INR Cr.)	6527.64
Outstanding Shares (Cr.)	63.19
Face Value (INR)	5.00
Dividend Yield(%)	3.87
TTM P/E (x)	17.03
Industry P/E (x)	19.43
Debt/Equity	0.00
52 Week High/ Low (INR)	206.2/102.1
Avg. Daily Vol. (NSE)/1 yr.	2262410

Shareholding Pattern (%)

	June-2018	Mar-2018	Dec-2017
Promoters	52.02	52.02	52.02
Institutions	31.56	32.18	31.54
Non-institutions	16.43	15.8	16.45

Stock vs. Nifty (Relative Returns)



Source: NSE

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Company Overview

Engineers India Ltd (EIL) is a leading global engineering consultancy and EPC company. Established in 1965, EIL provides engineering consultancy and EPC services principally focused on the oil & gas and petrochemical industries. The Company has also diversified into sectors like infrastructure, water and waste management, solar & nuclear power and fertilizers to leverage its strong technical competencies and track record. EIL is a 'Total Solutions' engineering consultancy company providing design, engineering, procurement, construction and integrated project management services from 'Concept to Commissioning' with highest quality and safety standards. As on March 31, 2018, EIL had 2827 employees, including 2339 professionally qualified employees.

Investment Rationale

PSU Giants to pump around INR1 lac crore for Capex plans: Indian Oil has lined up INR 22,000 crore capex plan for the current fiscal year. HPCL has plans to invest INR 75000 crore over five years to expand refining capacity, pipelines and LNG terminal. Considering the huge capex plans for upcoming two years, we believe Engineers India Ltd (EIL) will be greatly benefitted. The company's order book stands at INR 7229 crore as on Jun'18 down by 6% YoY. However, we believe the huge capex plans by Oil PSU's to boost order inflow of EIL for the next two years. Also since the company is a zero-debt company and has 14% revenues from export, it is safeguarded from current scenario of rising interest rate and to benefit from rupee depreciation.

Natural Gas is expected to increase its share to 20% by 2030: With natural gas share increasing to 20% by 2030, we could expect creation of more energy consumers driving the regional growth. The PCPIRs and Plastic parks would revive the growth potential of per capita consumption of petrochemical products to 15Kg by 2030 from the present consumption of less than 8 kg. Also several number of LNG Regasification projects are being planned on the East Coast of the country.

Rationale Cont'd...

Financial Performance at a glance (Consolidated)

Particulars (INR Cr.)	FY16A	FY17A	FY18A	FY19E	FY20E
Net sales	1,540.56	1,479.73	1,824.31	2,189.17	2,670.79
Growth%	-11.98%	-3.95%	23.29%	20.00%	22.00%
EBITDA (Excluding OI)	208.20	314.30	427.49	459.01	582.58
EBITDA Margin (%)	13.51%	21.24%	23.43%	20.97%	21.81%
Net Profit	281.42	330.20	383.34	444.48	556.69
Net Profit Margin (%)	18.27%	22.31%	21.01%	20.30%	20.84%
EPS	4.37	4.86	6.14	7.03	8.81
BVPS	44.66	45.02	37.05	39.86	43.39
P/E(x)	23.65	21.27	16.82	14.69	11.73
P/BV(x)	2.31	2.29	2.79	2.59	2.38
ROE(%)	10.18%	11.65%	14.78%	18.29%	21.16%
ROCE(%)	10.19%	11.77%	14.81%	18.31%	21.18%

Source: Company Data, SMIFS Research

...Cont'd Investment Rationale

Largest order win worth INR 5,000 crore: EIL bagged a INR 5,000 cr project execution order from HPCL Rajasthan Refinery to build a greenfield refinery and petrochemical complex in Barmer, Rajasthan. As on Q1FY19, the EIL held a strong order book of INR 7,229cr on a standalone basis, out of this 53% orders are attributed to consultancy and rest to turnkey projects. This order book translates book-to-bill of around 3.6x on TTM revenue which gives healthy revenue visibility for the next 3 to 4 years. With this order for execution of Rajasthan Refinery, EIL's order book has now become further strong.

Strong global opportunities especially Middle East and African region: EIL is consistently expanding its presence in international markets, where it offers consultancy services only. Contribution of international markets to EIL's revenue has gradually increased to 13% in FY18 from 3.1% in FY12. As of FY18, the overseas orders constituted 12% of EIL's order backlog. With current growth trends of fuel consumption and improved GDP numbers for some of the major nations in African continent, EIL expects future business opportunities in oil & gas sector in this region as well. With its engineering set-up in Abu Dhabi, EIL is well positioned to actively participate in these upcoming opportunities in Middle East and African region.

India to exhibit strong growth in APAC Region: The developing countries are expected to clock a growth rate of 4.9%, and the Energy demand created is set to be governed primarily by India & China in the APAC Region. Hydrocarbons are envisaged to have a significant demand with rapid urbanization and increased energy consumption. The robust demand of POL is driving Indian refining capacity (247 MMT) to projected 533 MMT by 2040. EIL has maintained a strong track record in executing several domestic orders on nomination basis, while maintaining long term relationship with the key clients. Notably, 20 out of 23 refineries in India are built by the Company, while it is the market leader in petrochemical space by establishing 10 out of 11 mega complexes.

Valuation: Ongoing OMCs' capex in India, recovering oil prices, strong order book and deal pipeline, place EIL in a sweet spot. The order inflow has improved significantly in last 2 years led by BS-VI emission norms and modernization of Vizag refinery. Looking ahead, we expect order inflow to remain strong in domestic market which provides promising revenue visibility for next couple of years. Considering all these, we have assigned a **multiple of 18 times to its FY20 EPS and arrive at a price of INR 158.57.**

CMP (INR) (As on 5th Oct 2018)	162.35
Target (INR)	200
Upside(%)	23
Recommendation	Strong Buy

BSE Code	533286
NSE Code	MOIL
Reuters Ticker	MOIL.BO
Bloomberg Ticker	MOIL IN

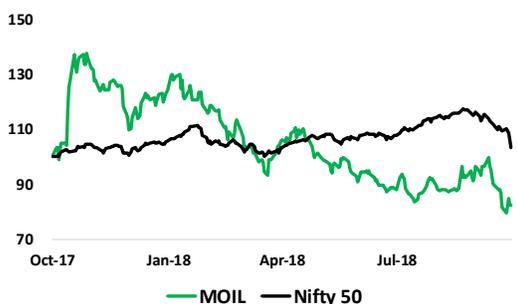
Stock Scan

Market cap (INR Cr.)	4182
Outstanding Shares (Cr.)	25.76
Face Value (INR)	10.00
Dividend Yield(%)	3.44
TTM P/E (x)	10.56
Industry P/E (x)	16.64
Debt/Equity	0.00
Beta vs. Sensex	0.91
52 Week High/ Low (INR)	285.50/154.10
Avg. Daily Vol. (NSE)/1 yr.	75267

Shareholding Pattern (%)

	Jun-2018	Mar-2018	Dec-2017
Promoters	65.69	65.69	65.58
Institutions	17.39	17.40	17.22
Non-institutions	16.92	16.91	17.21

Stock vs. Nifty (Relative Returns)



Source: NSE

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Company Overview

Manganese Ore India Limited (MOIL) is a miniratna company based in Nagpur in the business of mining manganese ore across India.

MOIL has operating units in the states Maharashtra and Madhya Pradesh with several mines spread in both the states. The manganese ore is sold domestically to several steel companies for making stainless steel and to make aluminum alloys to other companies. India is the fifth largest producer of manganese globally (less than 5% of world total output) and MOIL is the largest manganese miner in the country.

Investment Rationale

Higher demand and shortage in supply: The manganese demand is at an unprecedented high level due to lesser production globally, thereby increasing the realization per tonne of both fines and non-fines/lump ores by 25.8% and 16.9% respectively on YoY basis at the end of Q1 FY19.

Higher use of Manganese Ore in making stainless steel in Asia: The major increase in output and consumption of steel is happening in the Asia-Pacific region, where traditionally, steel makers use manganese & nickel along with nitrogen to produce stainless steel due to lesser availability and higher prices of chromium unlike European and American steel makers where more of chromium is added.

Growth in domestic steel industry to act as tailwind: The National Steel Policy laid down in 2017 to increase India's steel making capacity to 300 million MT per year is expected to open newer horizon of opportunities as the domestic demand of Manganese will grow further by 2.5 times.

Rationale Cont'd...

Financial Performance at a glance (Standalone)

Particulars (INR Cr.)	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	634.60	989.85	1,323.46	1,522.80	1,605.90
Growth % (Y-o-Y)	-23.60%	55.98%	33.70%	15.06%	5.46%
EBITDA	322.70	514.61	674.38	731.40	750.70
EBITDA Margin (%)	50.85%	51.99%	50.96%	48.03%	46.75%
Adj. Net Profit	172.78	301.06	398.56	535.40	538.60
Net Profit Margin (%)	27.23%	30.41%	30.12%	35.16%	33.54%
Adjusted EPS	6.71	11.69	15.47	20.78	20.91
Adjusted BVPS	133.99	108.90	108.48	123.77	139.17
P / E (x)	21.14	13.90	12.80	8.33	7.75
P / BV (x)	1.06	1.49	1.80	1.31	1.17
ROE (%)	5.06%	9.62%	14.23%	17.02%	15.50%
ROCE (%)	7.91%	14.70%	21.85%	22.10%	22.30%
EV / EBITDA (x)	2.48	4.06	4.31	2.74	2.67

Source: Company Data, SMIFS Research, Bloomberg Estimates

...Cont'd Investment Rationale

Strong Balance-Sheet with no debt: The Company has neither long-term debts nor any short term borrowings. Hence, is relieved of any interest cost. Also, the reserves of the company are at a high level of INR2500+ Cr with YoY profits increasing the general reserves to be used in further expansion of their operations.

Strong Growth in production as well as realization per tonne: MOIL produced 12.01 tonnes of total Managanese Ore in FY18 against 10.05 tonnes in FY17, i.e. growth of 19.5% YoY. On the other hand, the realization per tonne lump/non-fines and fines increased by almost 27% YoY from INR8018 per tonne to INR10,201 per tonne.

Capacity Expansion over the next few years: MOIL is expanding the production capacity of its Balaghat and Gumgaon mines from 3.70 lakh tonnes to 7.40 lakh tonnes by 2025. The Company has already put in place high-speed vertical shaft in both the mines for the expansion. MOIL has also applied for 3 mining leases (M.L.) with the Government of which 2 have been in-principal approved by the Government and the third is in process.

Outlook and Valuation

Viewing the growth prospects of MOIL over the next few years as steel industry in India expands its capacity and so does the company expand its mine productions over the same period, we expect the topline to grow both on the back of higher realization as well as in volume terms.

MOIL has enough internal accruals to finance capacity expansion and is only waiting for M.L. approvals to increase their output. The EBITDA Margin of the company hence widens over time while almost zero-debt levels help keep higher profit margins.

Valuation: We expect the topline of the company to grow more in forthcoming quarters due to increased pollution control norms imposed in China during winters, thereby supporting the domestic steel makers. Hence, **we assign a EV/ EBITDA (x) of 4 for FY20 to arrive at a Target Price of 200.**

Operational Performance		Q1 FY19	Q1FY18	FY18	FY17
Production (lakh tonnes)	Non-Fines	2.9	2.2	9.8	8.3
	Fines	0.4	0.4	2.2	1.7
	Total	3.2	2.7	12.0	10.1
Sales (lakh tonnes)	Non-Fines	2.1	2.6	9.7	9.6
	Fines	0.3	0.4	2.1	1.7
	Total	2.4	3.1	11.9	11.3
Realization (INR per tonne)	Non-Fines	13,474	10,708	11,701	8,935
	Fines	3,434	2,936	3,342	2,840
	Overall	12,072	9,620	10,201	8,018

Source: Company Data & SMIFS Research

CMP (INR) (As on 5th Oct)	575.9
Target (INR)	935
Upside(%)	62.3
Recommendation	Strong Buy

BSE Code	500048
NSE Code	BEML
Reuters Ticker	BEML.BO
Bloomberg Ticker	BEML IN

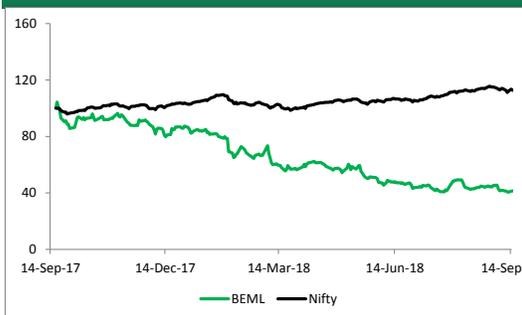
Stock Scan

Market cap (INR Cr.)	3203.71
Outstanding Shares (Cr.)	4.16
Face Value (INR)	10.00
Dividend Yield(%)	1.04
TTM P/E (x)	24.71
Industry P/E (x)	25.30
Debt/Equity	0.20
52 Week High/ Low (INR)	1947.45/731.2
Avg. Daily Vol. (NSE)/1 yr.	895349

Shareholding Pattern (%)

	June-2018	Mar-2018	Dec-2017
Promoters	54.03	54.03	54.03
Institutions	26.89	28.26	29.81
Non-institutions	19.08	17.71	16.16

Stock vs. Nifty (Relative Returns)



Source: NSE

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Company Overview

BEML Limited was established in May 1964 as a Public Sector Undertaking for manufacture of Rail Coaches & Spare Parts and Mining Equipment at its Bangalore Complex. The Company has partially disinvested and presently Government of India owns 54 percent of total equity and rest 46 percent is held by Public, Financial Institutions, Foreign Institutional Investors, Banks and Employees. The Company operates under three major Business verticals viz., Mining & Construction, Defence and Rail & Metro. The three verticals are serviced by nine manufacturing units located at Bangalore, Kolar Gold Fields (KGF), Mysore, Palakkad and Subsidiary - Vignyan Industries Ltd, in Chikmagalur District. Each Business vertical is headed by a Director who reports to the Chairman & Managing Director of the company.

Investment Rationale

The New Mining Policy will augur well for the company: The Government is likely to announce a new National Mineral policy which will result in increasing momentum in exploration of minerals in the next 3 to 5 years. The new policy would offer a long term export policy for the minerals, which will attract large scale investment in the commercial mining activities and which will in turn provide good business opportunity to BEML as the mining segment contributed 57% to the total revenue. The Government's increased emphasis on Infrastructure segment will augur well for the company's Mining and Construction segment.

Increased traction in Metro Segment: Several metro projects have been planned in Metro and Non-Metro cities as a part of urban development programme and further extending to Tier-2 cities in the country which should provide steady growth opportunities for the company. BEML has been successfully executing Metro rail projects in multiple cities in India and currently executing orders from Bangalore & Kolkata Metro. The company is expecting INR1800-1900 crore revenues from railways and metro business.

Rationale Cont'd...

Financial Performance at a glance (Consolidated)

Particulars (INR Cr.)	FY16	FY17	FY18	FY19E	FY20E
Operating Income	3,277.57	2,829.45	3,298.70	4,288.31	5,360.39
Growth	18.00%	-13.67%	16.58%	30.00%	25.00%
EBITDA (Excluding OI)	142.13	146.53	252.74	342.25	437.22
EBITDA Margin (%)	4.34%	5.18%	7.66%	7.98%	8.16%
Net Profit	64.41	84.79	129.68	167.02	228.74
Net Profit Margin (%)	1.97%	3.00%	3.93%	3.89%	4.27%
EPS	15.48	20.38	31.17	40.15	54.99
BVPS	511.93	524.66	529.16	557.24	595.69
P/E(x)	37.20	28.26	18.47	14.34	10.47
P/BV(x)	1.12	1.10	1.09	1.03	0.97
ROE(%)	3.02%	3.88%	5.89%	7.20%	9.23%
ROCE(%)	3.54%	4.83%	6.40%	7.65%	9.51%

Source: Company Data, SMIFS Research

...Cont'd Investment Rationale

Aiming to double revenue from defence verticle: In Defence & Aerospace sector, thrust on import substitution through indigenization and the Make-in-India initiative has opened many opportunities. BEML supplies mortar and casing components to the Indian Army. The company is also working on recovery vehicle on main battle tank of Indian Army, mine protected vehicle for military and para-military forces, high-end missile programme and Akash missile system among others. It has already invested around INR300 million to strengthen its capability to cater to aerospace segment, and plans to spend another INR1 billion in next couple of years. The defence segment contributed 17% in FY18 revenues and company is planning to double its revenues from this segment in FY19.

Increased thrust by Government in infrastructure development: The Government of India will invest INR5.97 lakh crore in creating and upgrading infrastructure in FY 2018-19 which will increase the demand of construction equipment in the country. **This will be further get a boost as INR is depreciating against USD and imports of equipment become costlier. Besides this, company has emphasized that to pursue business opportunity which is positive in rupee depreciating scenario. To discourage imports, government may encourage PSU mining companies to source equipment from domestic companies.** This augurs well for the company especially to the Mining & Construction segment.

Valuation: The increased spending in defence and railways has opened up many opportunities for the company. Company continues to pursue international business opportunities for increase in export business. We believe the upcoming mining policy and Infrastructure development will increase the demand for construction equipment which in turn will lead to the growth of the company.

Considering above rationale, we assign PE multiple 17 to arrive at a target price of **INR935**.

CMP (INR) (As on 5th Oct)	308.95
Target (INR)	496
Upside(%)	61
Recommendation	Strong Buy

BSE Code	523618
NSE Code	DREDGECORP
Reuters Ticker	DRDG.BO
Bloomberg Ticker	DCIL IN

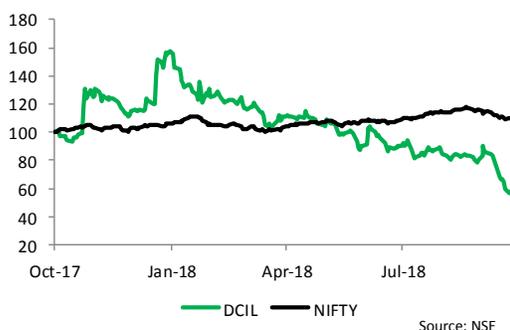
Stock Scan

Market cap (INR Cr.)	865.06
Outstanding Shares (Cr.)	2.80
Face Value (INR)	10.00
Dividend Yield(%)	0.42
TTM P/E (x)	52.53
Industry P/E (x)	24.45
Debt/Equity	0.52
52 Week High/ Low (INR)	920.00/295.00
Avg. Daily Vol. (NSE)/1 yr.	400855

Shareholding Pattern (%)

	June-2018	Mar-2018	Dec-2017
Promoters	73.47	73.47	73.47
Institutions	9.41	9.42	9.84
Non-institutions	17.12	17.10	16.69

Stock vs. Nifty (Relative Returns)



Company Overview

Dredging Corporation of India Limited (DCI), is an Indian Government undertaking engaged in the business of dredging. It is involved in maintenance dredging, capital dredging, beach nourishment, land reclamation, shallow water dredging, Project Management consultancy and Marine construction. DCI owns most modern and sophisticated fleet consisting of three Cutter Suction Dredgers and Twelve Trailer Suction Dredgers.

Investment Rationale

Govt initiatives will bode well for the sector: As per Ministry of Shipping (MoS), most of the major ports in the next few years would improve their capacity to accommodate bigger ships. The Government of India has also envisioned the Sagarmala Program, which aims to exploit India's 7,500 km coastline and 14,500 km of potentially navigable waterways. These will promote port-led development in the country by harnessing strategic locations on key international maritime trade routes. Under the National Perspective Plan for Sagarmala, six new mega ports will be developed in the country. This along with other projects like Jal Marg Vikas, Clean Ganga will increase the scopes of dredging companies in a big way going forward.

DCIL has been preferred dredging company for major ports and Indian Navy: The company is the only PSU dredging company in India. It has been in this business since 1976, and has been catering to the dredging requirements of the major ports and Indian Navy since then. The company is the leader in maintenance dredging in India through its combination of usage of advanced equipment and experience. They are equipped with the best technology among the fleet of Indian companies. Owing to the long association, the company is the most preferred company for dredging requirements of most of the Major Ports and the Indian Navy.

Rationale Cont'd...

Financial Performance at a glance (Standalone)

Particulars (INR Cr.)	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	665.9	585.2	591.9	671.8	772.5
Growth	-8.20%	-12.12%	1.15%	13.50%	15.00%
EBITDA (Excluding OI)	129.7	116.3	134.9	156.1	185.4
EBITDA Margin (%)	19.47%	19.87%	22.80%	23.23%	24.00%
Net Profit	41.9	7.4	17.1	35.0	56.7
Net Profit Margin (%)	6.30%	1.27%	2.90%	5.21%	7.34%
EPS	15.54	2.55	5.94	12.50	20.26
BVPS	536.36	543.08	551.46	561.55	579.39
P/E(x)	19.89	121.33	51.99	24.73	15.25
P/BV(x)	0.58	0.57	0.56	0.55	0.53
ROE(%)	2.8%	0.5%	1.1%	2.2%	3.5%
ROCE(%)	2.0%	0.8%	1.5%	2.1%	3.0%
EV/EBITDA(x)	12.34	13.76	11.86	10.25	8.63

Source: Company Data, SMIFS Research

...Cont'd Investment Rationale

Top ports to pick up stake in DCIL: The Govt of India is in talks to sell 73% stake in DCIL to three major ports. A cabinet note is likely to come out soon for pickup of equity stake in the company by three of the 12 major ports in the country. The ports that are likely to pick up stake include Paradip Port Trust (PPT), Visakhapatnam Port Trust (VPT) and New Mangalore Port Trust (NMPT). The divestment will be beneficial to the govt as well as the company. The sale is expected to fetch about INR1, 400 crore to the exchequer which would help in reducing the fiscal deficit. Moreover once it comes under these cash-rich port trusts it will be run more proficiently as believed by most of the Industry experts. It could also lead to upgrading/investing in modernization of existing fleet and acquisition of new fleet/equipment to cater to requirement of various projects.

DCIL intends to foray into foreign dredging market: The company intends to strengthen their domestic and international competitive position by expanding their operations in dredging services and adopting a pro-active marketing strategy for their domestic and foreign operations. The company has plans to foray in the foreign dredging market and has already executing the dredging contract for Mongla Port, Bangladesh. Further, the Company has also signed a contract with National Highways Authority of India (NHAI) to bring the sand from abroad either on its own or through consortium partners and NHAI would facilitate the sale of the same for Mega road projects and bridges, and other construction projects across India which are facing shortage of sand.

DCIL has set up ship repair and training centre: The company took the initiative to set up training and repair facility, comprising of training institute, construction of jetty for berthing of its dredgers, installation of dredge simulator, Staff quarters etc., with an estimated investment of INR915 Crores. With this initiative, dredger repair and acquisitions can be met internally and down time of dredgers can also be reduced drastically. Revenue can also be generated by diversification of its business in dredger repair and building. This Centre of excellence can cater dredging needs of entire South East Asia for Dry docks & Dredger Repairs and Training needs of dredging industry.

Valuation: The Dredging market has witnessed its share of ups and downs over past decade. However, the recovery in global economy and spurt in trade has necessitated the need for expansion of existing ports, and development of new ones. Indian dredging industry has also emerged as a distinct industry due to growing dredging requirements at Indian ports and inland waterways. GOI has also proposed several measures to increase the capacity of ports. Majority of the activity would require capital dredging. DCI being the oldest player in this Industry is to benefit the most from these developments. The company is also diversifying its core business and enhancing its fleet capacity to obtain operational efficiency.

Considering all these, we have assigned a multiple of 24.5 times to its FY20 EPS and arrive at a price of **INR496**.

CMP (INR) (As on 5th Oct)	53.50
Target (INR)	92
Upside(%)	71
Recommendation	Strong Buy

BSE Code	534309
NSE Code	NBCC
Reuters Ticker	NATO.BO
Bloomberg Ticker	NBCC IN

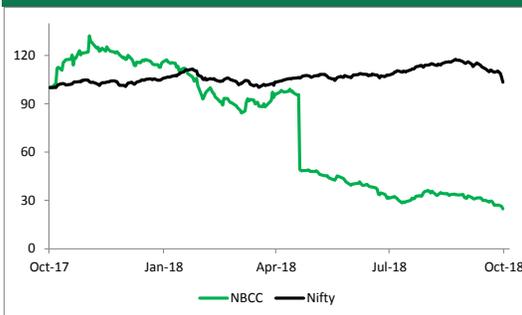
Stock Scan

Market cap (INR Cr.)	9630
Outstanding Shares (Cr.)	180
Face Value (INR)	1.00
Dividend Yield(%)	1.55
TTM P/E (x)	26.45
Industry P/E (x)	12.25
Debt/Equity	0.00
52 Week High/ Low (INR)	145.88/53.00
Avg. Daily Vol. (NSE)/1 yr.	4412684

Shareholding Pattern (%)

	June-2018	Mar-2018	Dec-2017
Promoters	73.69	74.29	74.50
Institutions	14.79	14.97	15.40
Non-institutions	11.52	10.74	10.10

Stock vs. Nifty (Relative Returns)



Company Overview

NBCC (India) Limited, formerly known as National Buildings Construction Corporation Ltd., is a Government of India Navratna Enterprise under the Ministry of Housing and Urban Affairs. The Company's present areas of operations are categorized into three main segments, i.e. Project Management Consultancy (PMC), Real Estate Development and EPC Contracting. NBCC has been executing many Landmark Projects as a PMC. The areas covered under its umbrella include Re-development of government properties, Roads, Hospitals & Medical Colleges, Institutions, Offices, Airports, Bridges, Industrial & Environmental Structures etc.

Investment Rationale

Strong Order book provides good revenue visibility: NBCC has a strong order book of INR80000 crore with 95% coming from PMC and 5% from EPC/Real estate. The robust order book provides good revenue visibility for the coming 2-3 years. While the company is planning to acquire 2 public sector companies, which is in line with company's strategy to consolidate its position in the market, with the total investment of INR500 crore, management expects the order book to touch INR1 lakh crore by the end of FY19. With such a large order book, company is expecting 30-40% growth in revenue and PAT in coming years.

Asset Monetization drive to boost affordable housing: NBCC has been appointed as land management agency (LMA) by the government to manage, maintain and protect land assets of sick/loss making public sector enterprises. The company has got in-principle approval from Air India to monetize the airline's 2 prime properties located in Delhi. To boost housing supply, NBCC would soon develop one lakh affordable housing projects on the lands of sick PSUs across the country.

Rationale Cont'd...

Financial Performance at a glance (Consolidated)

Particulars (INR Cr)	FY16	FY17	FY18	FY19E	FY20E
Operating Income	5,748.00	7,348.20	6,890.30	8,959.40	11,657.40
Growth	31.88%	27.84%	-6.23%	30.03%	30.11%
EBITDA (Excluding OI)	314.80	404.40	422.30	608.30	847.00
EBITDA Margin (%)	5.48%	5.50%	6.13%	6.79%	7.27%
Net Profit	291.18	325.30	371.50	498.30	688.40
Net Profit Margin (%)	5.07%	4.43%	5.39%	5.56%	5.91%
EPS	1.62	1.81	2.06	2.77	3.82
BVPS	8.56	9.41	10.92	12.66	15.05
P/E(x)	33.07	29.60	25.92	19.33	13.99
P/BV(x)	6.25	5.69	4.90	4.23	3.55
ROE(%)	18.89%	19.20%	18.90%	23.30%	27.47%
ROCE(%)	20.10%	20.40%	18.40%	27.63%	33.80%

Source: Company Data, SMIFS Research

Research Analyst

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...Cont'd Investment Rationale

Redevelopment of Government projects: NBCC is the only public sector enterprise in realty space which redevelops properties for the government. Company has recently received orders for the construction of around 15,000 bunkers in Jammu and Kashmir, the development of a large piece of land owned by the Maharashtra government in Mumbai's Wadala area, and the redevelopment of the Manora MLA Hostel in Nariman Point in Mumbai. The Company is also developing 10 railway stations at the project cost of INR4000 crore.

Return ratios likely to improve: We expect return ratios to improve, given that government may buy back shares or give large dividend pay out. Given zero long-term debt on its balance sheet, NBCC has no solvency issues, which is used to describe the company's ability to meet its long-term obligations.

Valuation: On the back of regulatory and policy reforms, improving business climate and healthy order book, we believe NBCC is poised for the steady growth in the coming years.

Considering above rationale, we assign PE multiple of 24 to arrive at a target price of **INR92**.

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 12% and 20%
Accumulate	between 6% and 12%
Hold	between 0% and 6%
Sell	0 to <-10%
Neutral	No Rating

Bloomberg Ticker for Stewart & Mackertich Research: SMIF<Enter>

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